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FOREIGN AFFAIRS

MARCH/APRIL 2001

The Trilateral Condition

C. Fred Bergsten on America's Coming Economic Conflict with Europe and Asia

The Once and Future Peace Process

DAVID MAKOVSKY

The Uneasy Americas

PETER HAKIM

THE AGE OF TECHNOLOGY

Christensen, Craig, & Hall on Disruptive Innovations,
Barshefsky on Trade Rules for the New Economy,
Hachigian on China's Cyber-Strategy, and
Hammond and Persaud on Bridging the Digital Divide

Plus Selig Harrison *on* North Korea,
Michael O'Hanlon *on* Bringing the Troops Home,
and Jeffrey Frankel *on* Jagdish Bhagwati

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FOREIGN AFFAIRS

MARCH/APRIL 2001
VOLUME 80, NUMBER 2

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America should not abdicate its military duties abroad. But careful cuts in the number of U.S. troops overseas could alleviate some current problems—such as poor troop morale and low readiness—without sacrificing U.S. interests or strategic goals.

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The crony capitalism of Asian firms was once a rational adaptation to their business environment, but it is now outdated. Rather than preaching or bullying, the West should have faith that the need for foreign capital will spur the necessary changes.

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America now faces the prospect of economic conflicts with both Europe and East Asia. The United States and the European Union have already fired the first shots of retaliatory sanctions over their ever-growing trade disputes. On the other side of the world, meanwhile, Asian countries are creating a bloc of their own that could include preferential trade arrangements and an Asian Monetary Fund. These developments could produce a tripolar world and hamper global economic integration. To avert this outcome, the United States must quell its domestic backlash against globalization and reassert its economic leadership in the world. The new Bush administration should make multilateral trade liberalization a top priority—or it will face unpleasant economic and political consequences as the U.S. and foreign economies slow.

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Hemispheric relations seem at an all-time high, as democracy and prosperity blossom throughout Latin America. But President Bush still faces potential problems south of the border, from mission creep in Colombia to chaos in Peru, from Chávez in Venezuela to Castro in Cuba. And then there is Mexico, where the first-ever democratically elected president is eager to engage Washington—on his own terms. Only one thing is certain: Latin America must not be ignored.

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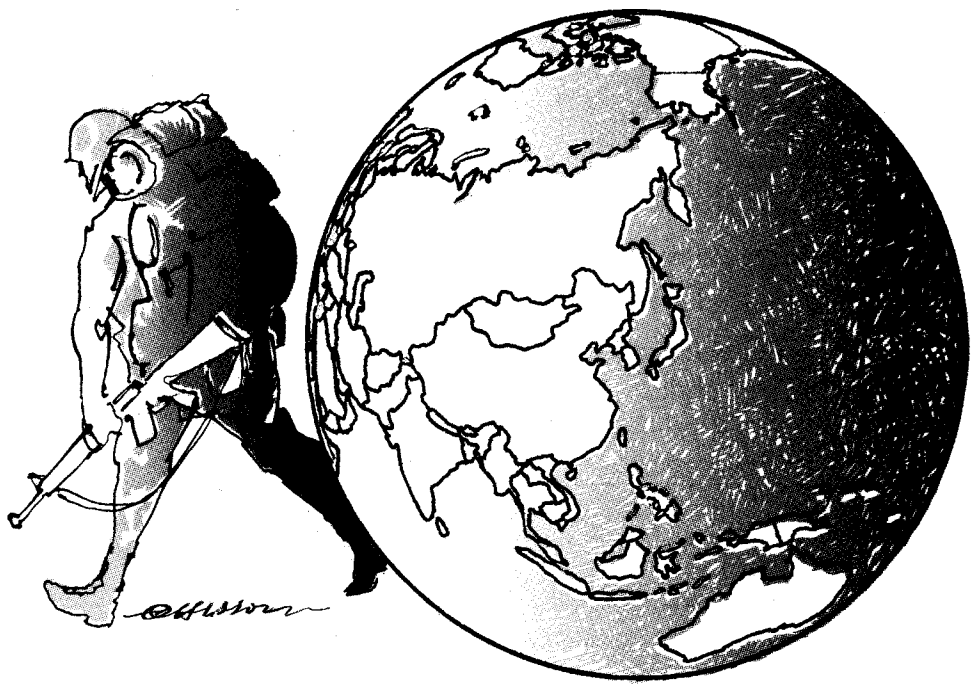

Sensible cuts in the number of U.S. troops overseas could ease the strains on the military without forfeiting America's goals or alliances.

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Come Partly Home, America

How to Downsize U.S. Deployments Abroad

Michael O'Hanlon

During last year's presidential campaign, then Texas Governor George W. Bush pilloried the Clinton administration for its supposed mishandling of the nation's armed forces. Alleging that U.S. troops were no longer ready to respond to major conflicts, in August Bush listed his complaints about the status quo: "Lack of equipment and material. Undermanning of units. Overdeployment. Not enough time for family. Soldiers who are on food stamps, and soldiers who are poorly housed."

To help solve these problems, Bush proposed slightly higher defense spending. He also argued for cutting back on overseas military deployments—particularly those involved in peacekeeping. As incoming National Security Adviser Condoleezza Rice told *The New York Times* in October, "The United States is the only power that can handle a showdown in the [Persian] Gulf, mount the kind of force that is needed to protect Saudi Arabia, and deter a crisis in the Taiwan Strait. And extended peacekeeping detracts from our readiness for these kinds of global missions." Incoming Secretary of State Colin Powell has also weighed in, stating that "our plan is to undertake a review right after the president is inaugurated and take a look not only at our deployments in Bosnia but in Kosovo and many other places around the world, and make sure those deployments are proper. Our armed forces are stretched rather thin, and there is a limit to how many of these deployments we can sustain."

Many of the Bush team's criticisms of Clinton's military legacy went too far. For example, although overall readiness is indeed down from its early-1990s peak, by most measures—training rates, the condition of equipment, the experience and aptitude of troops—it remains comparable to Reagan-era levels, when there was still a Cold War to fight. Meanwhile, the charge that the Clinton administration wantonly deployed forces around the world for peace operations was also greatly exaggerated. Today, as a decade ago, the vast majority of American military personnel deployed abroad are not participating in peacekeeping operations in

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Michael O'Hanlon is Senior Fellow at the Brookings Institution and author of the forthcoming *Defense Policy Choices for the Bush Administration.*

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the Balkans or anywhere else. Rather, they are protecting the United States' core interests and allies on long-standing and eminently sensible missions.

Despite the exaggerations, however, the new administration is right to see a problem in today's military. Although the number of U.S. troops overseas has been cut in half since 1990, most of the reductions have come from bases abroad (notably Germany), where U.S. personnel can enjoy the company of family and many of the comforts of home. By contrast, the number of personnel deployed away from home bases and families has declined little. More than 100,000 U.S. troops remain so deployed—primarily in South Korea, the Persian Gulf region, the waters of the western Pacific, the Balkans, Okinawa, and the Mediterranean. Due to the demands of training and other activities as well as to actual deployment, the typical service member now spends at least 15 to 20 percent of his or her time away from home, and many far exceed that average.

The new Bush administration is also right—in instinct, at least—to think that reducing the American military presence abroad is part of the solution. U.S. strategic interests will not allow the American military to disengage fully from any region where its forces are now deployed, and the rationale for the cuts should derive from political and military good sense rather than a shift in America's basic role in the world. But changed strategic circumstances, new technology, and creative thinking together make it possible to reduce the number of U.S. troops deployed in many theaters abroad and to improve the quality of military lives in the process. The Bush team should seize the opportunity.

LESSONS LEARNED

The United States has already begun gradually reducing its military commitments in the Balkans. Indeed, the current force of about 12,000 personnel is just half that of 1996, and American personnel now constitute less than 20 percent of the international total in the region. The U.S. Army could certainly benefit from further reductions in its Balkan presence in the years ahead. But any additional cuts need to be made selectively and carefully.

Pulling all U.S. troops out of the region would fly in the face of the lessons learned from the consequences of America's delayed participation in the two world wars and in the Bosnian war of 1992–95. For nearly three years, the United States stayed out of the U.N.'s ill-fated mission in Bosnia while American allies foundered—and lost dozens of soldiers to snipers, mines, and accidents. That was no way to treat allies or protect U.S. interests.

If the United States wishes to maintain its leadership of the NATO alliance, it must participate in difficult and dangerous European security operations such as the Balkan interventions. In addition, the less U.S. forces help out in the Balkans or any future European hot spot, the less Europeans are likely to participate in missions outside the continent, and the United States would have to keep picking up the slack. Washington should not condone such a division of labor, since most of the world's most difficult and dangerous future military tasks will probably occur outside of Europe. Encouraging the Europeans to remain militarily insular could also reinforce existing differences in strategic perspectives between the United States and the European Union

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on matters such as policy toward Iraq and Iran. It is therefore imperative that the United States join its European allies in zones of active or simmering conflict on the continent.

Rather than abdicating, scaling back the U.S. forces in the Balkans is the wisest course—and the bulk of the reductions should come from Bosnia, not from Kosovo. Bosnia, unlike Kosovo, has recaptured a degree of stability. Admittedly, the goals of reintegrating the Muslim-Croat and Serb sectors into a single functioning entity and allowing the displaced to return to their homes may never be achieved. But such potential failures will likely not lead to renewed violence. The reasonably equitable territorial settlement reached at Dayton, Ohio, in 1995 may help convince Bosnian Muslim, Croat, and Serb leaders and armies not to resume warfare. A stabilizing force of foreign troops certainly remains highly desirable, but it no longer needs to include as many Americans.

By contrast, Kosovo remains a disputed territory over which competing claims have never been resolved. Both Serbs and ethnic Albanians consider Kosovo entirely their own. Neither side is prepared to see the other enjoy sovereignty over the region, and no reasonable concept for formal or informal partition now exists. Even without the encouragement of former Yugoslav President Slobodan Milošević's inflammatory rhetoric and military aggressiveness, many Serbs remain willing to use violence to reassert control of Kosovo. And on the other side, with the ethnic Albanian population in Kosovo fervently in favor of independence, elements of the former Kosovo Liberation Army might be prepared to fight for it—particularly if left unprotected, and unchecked, by a strong and credible NATO force. U.S. troops remain essential to providing this strength and credibility.

Therefore, cuts in American forces in the Balkans should focus on Bosnia. The Bush administration could pare the current U.S. deployment—5,000 to 6,000 troops—roughly in half during its first term without causing significant harm.

ENDING THE OCCUPATION LEGACY

The United States keeps nearly 20,000 marines on Okinawa. These troops are an important part of the 100,000 U.S. military personnel based or deployed in the western Pacific region. In light of ongoing security concerns in the Taiwan Strait and on the Korean Peninsula, the Clinton administration felt it important to establish a floor below which U.S. military strength in the area would not drop. This goal was accomplished by the Pentagon's 1995 Nye report—designed to articulate post–Cold War U.S. military strategy for the Asia-Pacific—which found that maintaining 100,000 service members in the region was an important symbol of sustained U.S. commitment. But six years later, that number needs rethinking.

About half of the marines on Okinawa are deployed there for several months. That makes Okinawa by far the largest regular Marine Corps commitment—in fact, forces there at any given time usually exceed all other worldwide Marine Corps deployments combined. Since the preparation and conduct of these missions is at the heart of the corps' raison d'être, the marines rarely complain about such deployment. In addition, the marines' presence on Okinawa saves U.S. taxpayers

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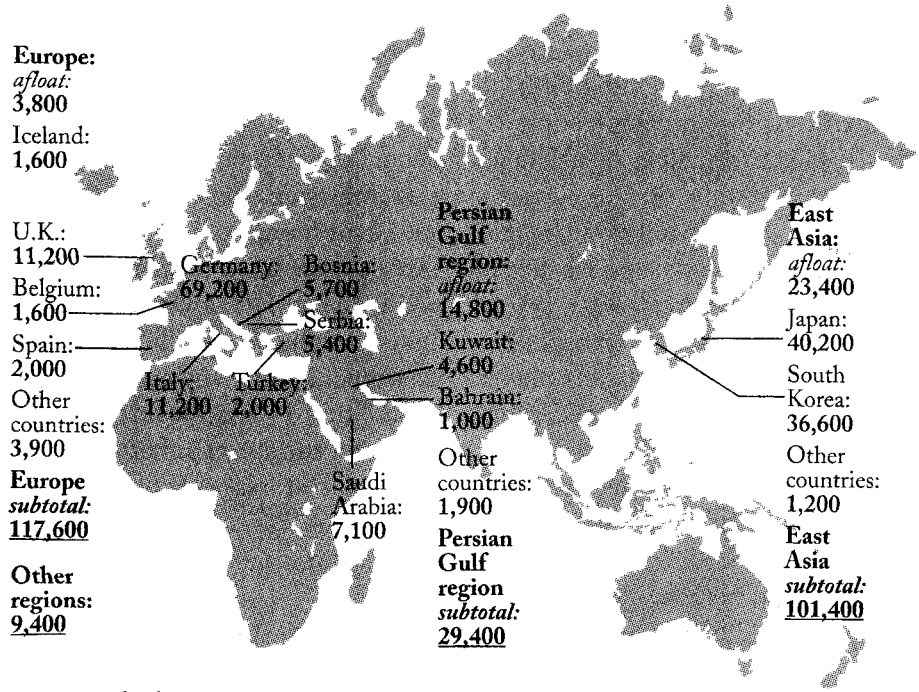
Where the Troops Are



Service totals: Army, **103,600**; Air Force, **64,400**; Navy, **60,400**; Marine Corps, **29,400**

Global total: 257,800

Source: Department of Defense, "Active Duty Military Personnel Strengths by Regional Area and by Country," September 30, 2000, http://web1.whs.osd.mil/mmid/m05/hst0900.pdf

money, since Japan foots much of the bill for operations and base needs.

But the advantages of the deployment—a diplomatic show of U.S. commitment to the Asia-Pacific, the lack of Marine Corps opposition, and its cost-effectiveness—do not add up to a strategic rationale for keeping the marines there. And the Okinawa mission carries downsides as well that are not commonly recognized.

The marines, with their expeditionary philosophy and capabilities, provide too valuable an asset to squander on a deployment that is not militarily or strategically essential. By default, putting them on Okinawa effectively consumes operational resources that could be used elsewhere: peace operations in the Balkans (to give the Army a break, for example), a humanitarian intervention or peace operation (should another genocide occur in Africa or elsewhere), exercises with foreign militaries, or responses to crises.

In addition, the marines on Okinawa are not so much forward-deployed as they are marooned. Okinawa itself is not at risk, and Japanese forces have the capacity to defend it even if it were. Furthermore, the three amphibious ships based in Japan can transport only the 2,000 marines of the 31st Marine Expeditionary Unit, which patrols the region, to areas of actual threat elsewhere in the Pacific. The other 15,000 marines on Okinawa could not quickly deploy elsewhere with their equipment. In the event of a war, these troops

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could be flown to Korea without their heavy weaponry to help in noncombatant evacuations or similar missions. But they would have no advantage over infantry soldiers airlifted from the United States or local South Korean infantry troops.

Keeping so many marines on Okinawa also places a major strain on U.S.-Japan relations, as George Washington University Professor Mike Mochizuki has argued and as an increasingly broad swath of the U.S. defense community now recognizes. In terms of acreage, three-quarters of U.S. bases in Japan are on Okinawa, taking up almost 20 percent of the land of an island that is small and, as home to more than a million people, densely populated even by Japanese standards. Changes to the base structure agreed to in the 1990s will reduce the acreage of the U.S. bases on Okinawa by only about a fifth, even if they are carried out in full. (Local resistance to moving the marines' Futenma air base has stymied efforts to enact much of the plan.) Meanwhile, marine flights continue in and out of Futenma—located right in the middle of Ginowan City—with the associated risks of accidents. Polls in recent years showed that more than 80 percent of all Japanese consider the Okinawa arrangement undesirable and unfair to local citizens. By trying to hold on to all of its bases in Japan, the United States risks causing a backlash and ultimately losing everything, including those facilities with the greatest military benefit for crises in Korea, the Taiwan Strait, or elsewhere—notably, the Kadena Air Force base on Okinawa and U.S. Navy and Air Force facilities on Japan's main islands.

Washington should therefore scale back the number of marines on Okinawa to about 5,000. The 31st Marine Expeditionary Unit should remain, as should enough forces to maintain storage and staging facilities for use in a crisis. But most other marines should go elsewhere in the region or return home, and most Marine Corps facilities and training ranges should be returned to Japanese use. Compensating steps should be taken, notably increased storage of U.S. military supplies on Okinawa or on ships in Japanese ports to facilitate rapid deployments in the region. Tokyo might well pay for the necessary equipment and many of the redeployment costs. Ideally, Japan would also increase its direct military contributions to the alliance. But major reductions in the marines on Okinawa need not await the normalization of Japanese security policy.

STAYING AFLOAT

The U.S. Navy maintains a nearly continuous aircraft carrier presence in both the western Pacific Ocean and the Persian Gulf. For six to eight months of the year, it also keeps a carrier in the Mediterranean. The Persian Gulf and western Pacific deployments remain strategically important. But the U.S. naval presence in the Mediterranean lost much of its justification with the end of the Cold War.

Having a carrier in the Mediterranean certainly reinforces the U.S. claim to leadership in NATO's southern command, which lies at the center of a volatile geopolitical zone. This command has handled the various Balkans operations and also borders the unstable Middle East. Furthermore, NATO's greatest internal dispute (between Greece and Turkey) also falls in the ambit of the southern command.

Yet despite these considerations, maintaining a U.S. aircraft carrier in the Mediterranean for six or more months a

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year is excessive. Unlike during the Cold War, Soviet forces no longer directly or indirectly threaten U.S. allies such as Turkey, Greece, and Israel. Ongoing problems with illicit migration from North Africa into Europe may understandably concern many European governments, but maritime immigration control at European borders is hardly a proper focus for the U.S. Navy. Washington is directly concerned with NATO's internal stability, but the U.S. ability to prop up the cold peace between Greece and Turkey has less to do with American aircraft carriers—which would not be used against an ally, anyway—than with the broader strategic and economic importance of the United States for both countries. Nor does Washington need the navy to back up its ongoing efforts to broker a settlement between Israelis and Palestinians.

In the event of a crisis, it might help to have U.S. naval forces available for a quick action in the Mediterranean. But the proximity of U.S. forces already stationed in much of Europe, along with the potential availability of land bases in half a dozen friendly countries along the Mediterranean rim, means that alternatives to a carrier force can generally be counted on. That is even more the case now that various types of U.S. combat aircraft are stationed at Aviano in Italy and at Incirlik in Turkey.

To be sure, European friends and allies might not always see a crisis where Washington does and therefore might not always be willing to offer their bases for U.S. operations. In 1986, only the United Kingdom permitted American forces to use its bases for air strikes on Libya. During the Yom Kippur War of 1973, the United States could supply Israel only from facilities in Portugal. But for situations in which American lives are at direct risk, or where general Western security is threatened, base access can generally be presumed. For missions like the strike on Libya, moreover, carriers could always be rapidly sent from the United States to the Mediterranean. In fact, the policy of maintaining a presence in the Mediterranean was counterproductive in 1999, when the Navy felt unable to sustain a carrier on station in the Adriatic at the very moment when NATO initiated combat operations against Serbia. In the future, both deterrence and warfighting purposes would be better served by a more flexible naval presence that would allow for carriers to be sped to the Mediterranean when necessary.

GULF AIR

Since shortly after the 1991 Persian Gulf War against Iraq, the United States and the United Kingdom have maintained no-fly zones in Iraqi airspace, which deny Baghdad the use of military aircraft over large parts of Iraqi territory. These zones were not specifically authorized by the U.N. Security Council resolutions that ended Operation Desert Storm but were initiated in response to Iraq's unwillingness to comply with the U.N. weapons inspection program, its oppression of internal foes, and its belligerent troop movements. Washington and London hoped that aerial restrictions would limit Iraqi President Saddam Hussein's ability to threaten his own population and his neighbors, make him pay a price—at least in prestige—for impeding the work of weapons inspectors, and possibly embolden internal Iraqi resistance forces.

Carrying out these missions has been demanding, particularly for the U.S. Air Force. In the fall of 2000, the U.S. military

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presence in the Persian Gulf region totaled some 25,000 troops, largely devoted to no-fly-zone operations. It featured about 60 aircraft in Turkey, about 130 aircraft on the Arabian peninsula, and about 70 Navy aircraft on a carrier in the Persian Gulf.

The costs of conducting the current no-fly-zone operations, especially in terms of strains and stresses on the U.S. and U.K. militaries, now appear to be outweighing their benefits. It is therefore worth contemplating a fundamental change in how the operation is carried out, particularly in southern Iraq, where most U.S. assets are deployed. In that way, a substantial reduction in the current U.S. Persian Gulf military presence is possible.

The United States should still keep fighter aircraft in the region to deter Saddam's moves against his neighbors and his own minority groups. But the numbers of aircraft can be reduced and less emphasis placed on maintaining constant airborne patrols over Iraq. Instead, the United States should use robust air-to-ground attacks to punish large-scale Iraqi aggression or evidence of renewed Iraqi pursuit of weapons of mass destruction. Strikes against airfields could occur if Iraq violated the no-fly zone, as Air Force Brigadier General David Deptula has suggested. Bombers operating out of Europe or Diego Garcia (a British-American naval support base in the Indian Ocean) could participate in such attacks as well, especially if larger stocks of precision munitions were allocated to those locations. In a crisis, the Air Force's new Air Expeditionary Forces could also provide rapid reinforcement.

This proposal would cut the U.S. military presence in the Persian Gulf region from 25,000 to less than 20,000 service personnel. The relief would be greatest for the Air Force, the service that has suffered the most from deployments to the Persian Gulf: its aircraft now maintaining the southern no-fly zone might be reduced by roughly 50 percent. That single step would essentially solve the service's ongoing equipment and personnel problems, caused by the demands of a high operational tempo.

Although this change in policy might appear as a tactical retreat from the U.S. strategy of containing Iraq, it would not sacrifice that policy's main goals. Sanctions would not be affected. And U.S. forces in the region would still be sufficiently robust to deter the most strategically significant acts of Iraqi aggression—attacks against Kuwait or Saudi Arabia, or large-scale internal repression of Kurds or Shi'ites.

SEIZE THE DAY

Together, these proposed cuts in overseas U.S. military forces would allow the United States to bring home 25,000 of its 250,000 troops now based or deployed abroad. Most would be taken not from the Balkans but from Okinawa and the Persian Gulf, where U.S. interests are less humanitarian than strategic. Making all these reductions at once could raise eyebrows around the world and require special efforts to reassure friends and foes alike that the United States was not disengaging overseas. But the 25,000 troops in question amount to just ten percent of the existing overseas force posture in its entirety—hardly an overbearing fraction. They would account for about a quarter of all U.S. military personnel routinely deployed away from home bases and families, however, and so the impact on troop morale, and military readiness, would be significant.

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Asia's Bad Old Ways

Reforming Business by Reforming Its Environment

Hilton L. Root

Having rebounded more quickly than expected from the financial crises of 1997, East and Southeast Asian governments today appear to be models of fiscal responsibility. South Korea has won praise for its timely delivery of financial information to the public; Thailand has introduced tougher bankruptcy laws; Indonesia has taken steps to clean up bad loans and recapitalize its banking system. Yet despite such accomplishments and a remarkable revival of GDP growth in these Asian countries, many Western critics warn that the progress has been too slow and that the underlying weaknesses that led to the crisis remain.

The critics fear that most East and Southeast Asian businesses have gone as far as they are willing to go in restructuring operations—but that this isn't nearly far enough. The greatest concerns center on heavily concentrated business ownership and closed systems of production. Continued economic dominance by a few families and a few firms, the critics contend, reinforces flawed Asian market systems and keeps new global economic opportunities at bay. The original owners maintain control over bankrupt companies and resist the sale of their non-core operations, while promising ventures have trouble competing for investment against "crony capitalists" who use their political clout to attract scarce funds.

But if the bad old ways that critics point to were all that bad, then why did they work so well at first? Why was Asia the fastest-growing emerging market in the world from 1960 to 1997? What the critics disregard is that Asian businesses have responded rationally to particular social and institutional contexts. Their practices led to growth in the past and in some situations could continue to permit short-term growth. If these firms have not adopted Western-style reforms, it is not because they don't understand them; the reforms just have not made sense under the circumstances.

Certainly, the deficiencies in Asia's economic organization are real and will have to be corrected if the region is to

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prosper in an increasingly globalized world. But the real problems stem less from poor business practices than from the difficult business environment, which lacks, for example, effective contract-enforcement mechanisms and the principle of neutral government intervention. Rectifying these deeper problems will require not just economic policy reforms, but major social and political changes. To offer truly constructive advice, critics must understand the histories of these countries' financial systems. In the short term, hectoring and putting conditions on aid will only make the situation worse.

RATIONAL SINS

Three years ago, the collapse of the Thai baht dragged East and Southeast Asia through a default spiral as exchange rates plunged and equity and property values collapsed. The international financial bailout that helped revive these economies came with scathing criticism of their basic economic structures. The hardest-hit nations were accused of bringing the problems on themselves by tolerating cronyism, corruption, weak legal structures, corporate opacity, and poor business ethics.

These days, despite some superficial changes, many of these factors remain. Japan drifts from one ineffective reform package to another: its leaders fail to follow through on announced plans, continue to protect obsolete sectors, and renege on pledges to reveal and clean up nonperforming bank loans. In South Korea, Indonesia, Malaysia, Thailand, and the Philippines, private cartels still dominate, insolvent banks continue to operate, bankruptcy laws remain generally inadequate, and bank supervision falls below international standards. Governments have been slow to enact reforms, so nationalized financial assets have not been restructured, definitions of nonperforming loans are a sham, independent regulators do not enforce stock market rules, and litigation still accomplishes too little.

Among the changes that Western critics want to see are protections for minority shareholders, corporate transparency, external auditing, transparent legal frameworks enforced by capable judiciaries, and meaningful distinctions between the regulators and the regulated. These goals are reasonable and rational, but the criticisms lack a broad historical perspective. Blaming Asia's recent economic failures on cronyism, for example, misses the point that many of the sins committed by Asian businesses were economically rational responses to an inherently uncertain business environment.

In the United States, financial transactions typically take place among a large number of independent contractors. Trades are conducted anonymously or at arm's length, with each side aware that its risk is minimized by a legal safety net of enforceable contracts. But this kind of trade is difficult in East and Southeast Asia, where inconsistent contract enforcement has forced firms to internalize risks by dealing only through closed production systems.

In addition, Asian firms have been reluctant to disclose profits for fear of having to surrender them to arbitrary governments, while outside financiers remain unwilling to invest without adequate protection against embezzle-

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ment. To cope with these risks, firms have acquired substantial "organizational capital"—business relationships dependent on family ties, trust, reputation, and repeated dealings. These relationships allow firms to raise money informally from within their networks of family and acquaintances, without having to go to a bank and show collateral for the loans. In the past these social assets helped firms grow, but in today's highly competitive global trading system they may be excess baggage.

TRAPPED IN THE NETWORK

Different parts of the region face somewhat different problems. In East Asia, capital is allocated according to the notion that a strong state's proper role is to help coordinate the flow of external financing to companies. Bureaucratic interventions have nurtured and sustained powerful industrial conglomerates, whose subsidized strength has compensated for weaknesses in the capital markets. Similarly, firms in Japan and South Korea react to external market uncertainty by forming internal networks to take direct control over their suppliers and distribution systems. Thus Japan's *keiretsu* and South Korea's *chaebol* (business groupings) have established vertical ties with small-scale domestic producers and horizontal ties with one another. This strategy brings a wide range of transactions into a more controllable, closed system, reducing companies' exposure to the risks of opportunism and fluctuations in transaction prices in an unpredictable market. These large networks have evolved into industrial conglomerates, typically including a main bank, that allow intensive sharing of information and internal capital generation.

The Japanese and South Korean examples stand in contrast to much of Southeast Asia—most notably Thailand, Indonesia, and the Philippines—where predatory or weak states discourage industrial development. Operating without the institutional frameworks needed for arm's-length exchanges, and fearing arbitrary and oppressive state intervention, businesses in the region have quite reasonably gravitated toward a distinctive trading style based on personal relationships—in other words, crony capitalism.

In Indonesia, for example, Chinese trading networks dominate the private-sector economy. These Chinese traders are loosely bound together by implicit contracts and depend on personal or communal sanctions, rather than the law, to enforce contract compliance. *Guanxi,* for example, is a personal relationship built on trust in an individual's ability to follow through on promises. This trust is acquired through repeated good performance and cannot be transferred to someone hired from the outside. The relationship also implies a responsibility to implement one's promises but does not include any formal obligation.

Networks built on relationships such as *guanxi* therefore lack the formal ties needed to band together and be sold to an outside investor—indeed, any such loosely grouped network would have difficulty borrowing funds from outsiders in its own name. Murky ownership rights and the presence of unincorporated businesses acting with undefined liability mean that assets cannot be

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turned into capital. Instead, they can be traded only within narrow circles of acquaintances. It should thus be no surprise that of the countries that fell into crisis in 1997, Indonesia is having the greatest difficulty recovering.

The failure of Southeast Asian states to enforce contracts prevents the personal networks that dominate those economies from evolving into more open systems of production. Unlike their East Asian counterparts, therefore, few Southeast Asian businesses have transformed themselves into modern, complex corporations. Yet given the commercial environment they have been facing, those businesses would not have been able to prosper in the first place without these extensive and effective personal networks.

OUT WITH THE OLD?

Although critics are frustrated by the slow pace of institutional reform, Asian businesses have valid reasons for not wanting to abandon the strategies that served them well in the past—at least not until underlying weaknesses in the business environment are corrected. Business transparency, for example, is dangerous in the present environment because firms that disclose profits can still be subject to arbitrary government audits and expropriations. And relying on internal transactions and closed production systems allows firms to be sure of the accuracy and timeliness of the financial and other information they receive, which might otherwise be in doubt.

In both East and Southeast Asia, moreover, small or new companies have had difficulty breaking into the market. In the 1960s and 1970s, efficient business management was rare and highly concentrated in the region, so governments and individuals pushed capital toward the few capable firms. These companies were able to exploit economies of scale and scope, gaining significant advantage vis-à-vis new entrants and developing crucial links abroad. For smaller and less well established firms in the region to now flourish against such competition, they will need a free flow of capital, especially from external investors. But investors are unlikely to direct their funds toward fresh and promising economic opportunities in the absence of a better legal framework, setting up a Catch-22 situation: foreign investors demand accountable owners who fully disclose relevant information, but looser traditional business practices will continue to make sense as long as contract enforcement remains inefficient.

Asian policymakers learned from the 1997 crisis that closed production systems are inflexible and that opening up requires stronger external legal systems and less state favoritism. But what no one has yet been able to design is a smooth transition from the concentrated, closed systems of today to more fluid and well-regulated alternatives. The future clearly favors the model of market-based financing that has supported U.S. economic growth in recent years. Furthermore, the ability to easily assess and disseminate financial information via the Internet can only expedite change. Nevertheless, it is still unclear how quickly an open model can be adopted in Asia and whether the shift can be accomplished

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without stifling economic growth, at least initially.

Measuring the success of reform in terms of growth rates, in fact, may perpetuate just the sort of cronyism that critics want to eliminate—because the quickest and easiest way to grow is to rely on the old and familiar practices that have served so well in the past. South Korea, for example, has experienced 40 years of strong economic growth but is still missing many of the essential ingredients of an open economy. It lacks a dependable legal system, which requires a judiciary that can enforce and carry out the intent of the law, a government able to interpret laws in a way that reflects social consensus, and a middle class with a vested interest in enforcing the law. Ultimately, a social revolution may be necessary to move the locus of decision-making away from *chaebol* owners, whose concentrated control of South Korea's means of production affords them great political and social clout.

A professional middle class can ensure the enforcement of contracts and the objective operation of the state if there is a code of conduct in place that separates their private interests from their professional activity. This group would derive its status from professional expertise rather than clientele or geography and would have an interest in managing the state in a businesslike manner. Yet most Asian nations have not provided the conditions for large numbers of individuals to make the transition from low-status servants of a clientalist political system to high-status professionals. In effect, Asia is facing a dilemma that requires broad social and political change, not just policy reform, to solve.

THE INDIRECT APPROACH

Rather than pressing directly for policy reforms in the short term, which might provoke resentment without spurring lasting changes, Washington should put its faith in more indirect forces. A healthy U.S. and global economy and increased trade openness, as well as an affirmed U.S. commitment to East and Southeast Asian regional security and integration, will create the external conditions necessary for broad internal changes. U.S. officials can accomplish more in dealing with their Asian allies by putting aside the big stick—America's disproportionate clout in international lending institutions—than by brandishing it.

Asian businesses understand the pro-competition, liberalizing economic rationalism that makes Western firms efficient, but the domestic political and social institutions that could facilitate such efficient business practices are still in development. In such a situation, patronizing lectures are both inappropriate and potentially counterproductive, because they risk needlessly offending sensitivities and impeding constructive progress. Reactions against modernization and liberalization in East and Southeast Asia will claim that the West is foisting change on the region for its own benefit.

Western critics who believe that change is not coming fast enough can draw solace from the fact that globalization will continue to lap at the shores of Asia's economies. The conglomerate and family models of business organization today still make it difficult for Asian companies to adopt the preferred

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business model for global competition. But capital is global nowadays, and businesses depend on foreign investment. East and Southeast Asian firms must learn to better manage the risks inherent in the international economy, without depending on favoritism and government bailouts. Even the giants who grew up in Asia's past, such as South Korea's Daewoo, will fail if they resist global forces and refuse to take on new risks.

The elites of the old regime who hope to ride out the slump and return to the good old days will face one major problem: they will find that globalization has changed the rules of the game. Firms' inability to raise money will ultimately force them to change; access to capital markets will impose checks and balances on business behavior. The profits and productivity growth of those firms that are able to adapt will be the best argument, and support, for true reform.

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America's Two-Front Economic Conflict

C. Fred Bergsten

DOUBLE TROUBLE

SINCE THE END of the Cold War, the perceived threats to U.S. security have been mainly from "rogue states" such as Iraq and North Korea—none of which are superpowers or likely allies of each other in confronting the United States. But the United States now faces the real possibility of economic conflict with both Europe and East Asia—the commercial and financial equivalent of two-front combat. In this domain, both potential rivals are superpowers. Moreover, they have already demonstrated their ability to coalesce against the United States, as they did to help torpedo the Seattle ministerial meeting of the World Trade Organization (WTO) in December 1999.

Peaceful and effective resolution of these potential conflicts is one of the most important and difficult issues facing the new U.S. administration and the world. The American and global economies are slowing sharply, and their futures may be heavily affected by the outcomes. In a post–Cold War world in which economic issues are central to international relations, those outcomes will also be crucial for U.S. foreign policy and global stability. Compounding the complexity of the situation is the fact European and East Asian nations are not only the United States' economic

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competitors but also its economic partners—and many of them are close security allies as well.

CONTINENTAL DIVIDE

THE UNITED STATES and the European Union (EU) are on the brink of a major trade and economic conflict. Washington has already retaliated against European import restrictions on American beef and bananas—each retaliation accounting for a hundred million dollars or so of annual trade—and has rejected all European efforts to resolve these disputes. Europe in turn threatens to retaliate against several billion dollars of U.S. export subsidies, as well as new U.S. trade laws that would channel the proceeds of antidumping penalties from the Treasury Department to the complaining industries and would force the president to continually change the products being retaliated against, thus intensifying the impact of U.S. punitive sanctions.

Still larger trade clashes loom. The troubled U.S. steel industry will likely file additional antidumping cases against European firms or even an industry-wide safeguard action that would restrict all European imports. In addition, a major dispute over commercial aircraft is brewing as the two sides quarrel over whether direct European governmental subsidies for Airbus or indirect Pentagon subsidies for Boeing are more egregious. Europe's outcry over U.S. sanctions against European firms that deal with American adversaries such as Cuba and Iran has only been swept under the rug. And just over the horizon lies the biggest battle of all: the debates over farm subsidies, genetically modified products, and overall agricultural trade that will explode in 2003, when the U.S.-EU "peace clause" (a moratorium on new complaints in the agricultural sector) expires.

The United States and Europe also differ on global trade issues for which they share leadership responsibility. They remain divided, for example, on whether to include competition policy and investment issues in new WTO negotiations. It was their opposing views on issues such as these that scuttled any prospect of launching a new round of trade talks at Seattle.

Furthermore, the United States and Europe are divided on energy and environmental issues. As energy prices soared and riots erupted

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on European roadways last fall, European resentment flared anew over Americans' penchant for cheap fuel and their profligate energy consumption. The recent Hague conference that sought to devise operational plans to check global warming broke up over fundamental disagreements about who bears responsibility for greenhouse gas emissions, how they should be cut back, and who should pay for doing so.

Financial relations are another potential land mine. When the European Central Bank intervened to halt the slide of the euro last September, the United States provided only grudging support. But now that the euro has rebounded, the shoe may soon be on the other foot as the dollar risks a sharp decline in the wake of a domestic economic slowdown and an annual trade deficit approaching $500 billion. Europe should be willing to help in such a circumstance, since it would not want to see the euro soar to levels that would jeopardize the price competitiveness of its exports. But it might be less enthusiastic to bolster the dollar if the net effect were to finance massive tax cuts à la President George W. Bush that would further reduce U.S. national savings and hence increase America's draw on foreign capital.

The accumulation of such potential conflicts poses high risks for both American and European economies. Moreover, the global impact of a commercial clash between these two titans could be severe—including systemic damage to the WTO, especially its crucial but fragile dispute settlement mechanism. A transatlantic economic conflict may also exacerbate potential security tensions over issues such as a future policy toward the Balkans, American concern over European plans for an autonomous military force, and European anxieties that American proposals for a missile defense system will renew tensions with Russia and trigger another global arms race. All this calls for new basic strategies for managing globalization, especially in light of the developments simultaneously arising on the other side of the world.

ASIAN FUSION

THE POTENTIAL economic confrontation between the United States and East Asia is quite different from the transatlantic one. The sector-specific conflicts that have traditionally burdened U.S.-Asian

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trade relations (and that now burden U.S.-European ones) have diminished sharply. The problem now is that East Asia, for the first time in history, is creating its own economic bloc, which could include preferential trade arrangements and an Asian Monetary Fund (AMF).

Asian countries will shortly complete a Network of Bilateral Swap Arrangements, which will provide initially up to $50 billion and eventually as much as $100 billion in mutual currency supports among the "ASEAN + 3": the ten members of the Association of Southeast Asian Nations (ASEAN), plus Japan, China, and South Korea. In addition, they are contemplating cooperative exchange-rate systems to shield themselves from the huge fluctuations in the currencies of the major industrial countries—similar to Europe's moves toward monetary integration in the 1970s to defend itself against wide fluctuations of the dollar. These countries are also devising new "early warning systems" to help prevent future regional economic crises. Building on the 1998 Miyazawa Plan, under which Japan offered $30 billion to support the recovery of the nations hit hardest by the 1997–98 financial crisis, these countries are clearly headed toward creating their own monetary arrangements.

On the trade side, fundamental changes in the trade policies of the three main East Asian powers—Japan, South Korea, and China—have initiated a spate of subregional and bilateral free trade negotiations. Japan, which has traditionally relied on the multilateral frameworks of the General Agreement on Trade and Tariffs (GATT) and now the WTO, has begun to pursue bilateral trade agreements with Singapore, Mexico, and South Korea over the past two years. South Korea has made a similar policy shift and is now actively negotiating with Chile, as well. China, which had also previously eschewed regional approaches, stunned everyone at the fourth annual ASEAN + 3 summit in late 2000 by proposing a China-ASEAN free trade area—which the Southeast Asians, fearing Chinese domination, immediately broadened to include Japan and South Korea.

Thus a study of a possible East Asian free trade area, which would be a world-shaking development, was launched at the summit. The new study will build on the one already underway for the creation of a Northeast Asia free trade area comprising China, Japan, and South Korea, which itself is of major significance. In short, the East Asia

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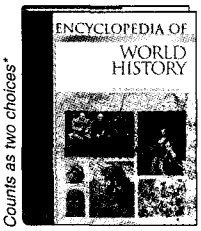

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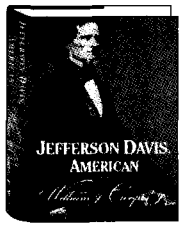

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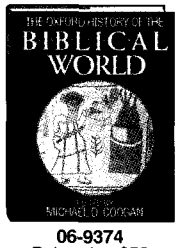

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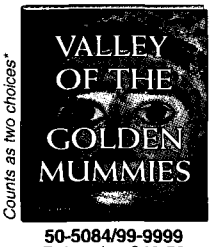

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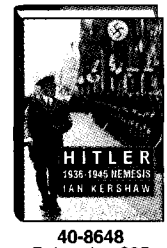

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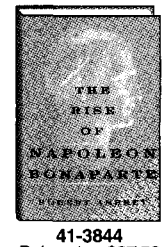

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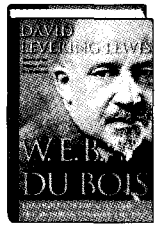

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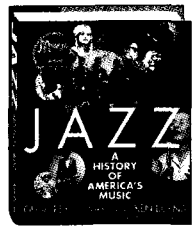

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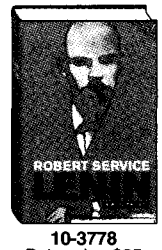

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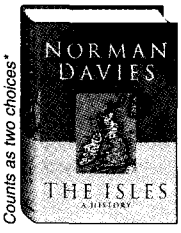

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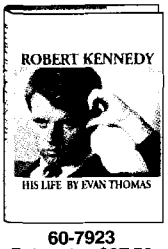

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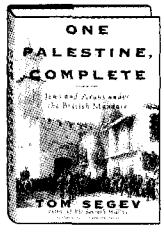

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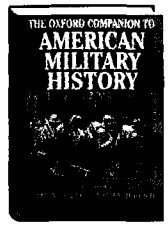

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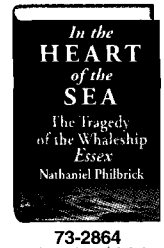

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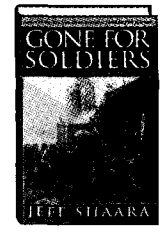

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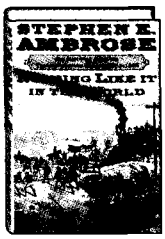

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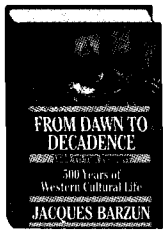

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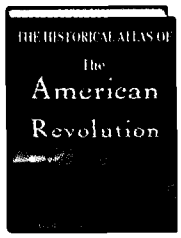

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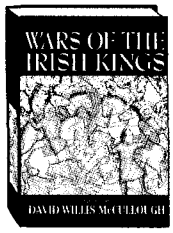

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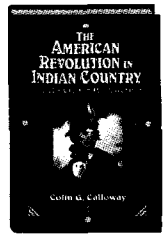

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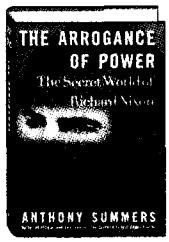

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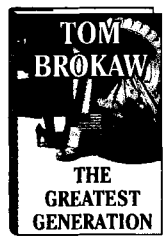

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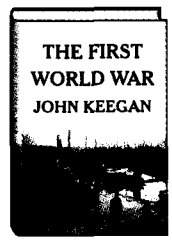

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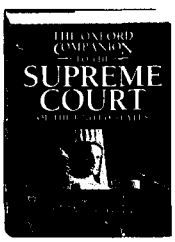

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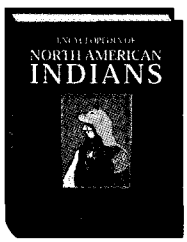

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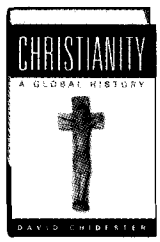

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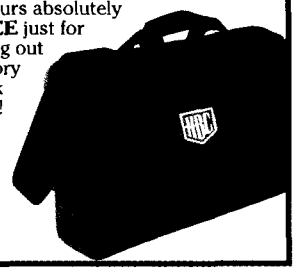

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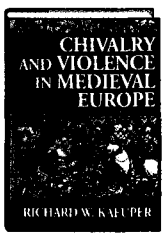

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Economic Group proposed a decade ago by Malaysian Prime Minister Mahathir bin Mohammed is beginning to take shape, albeit slowly and in subregional stages. ASEAN, for example, has already developed detailed plans to complete its own free trade area and currency network. No overarching political strategy drives Asian integration, as it did for the EU, and little coordination exists between the current financial and trade initiatives. But there can be little doubt that these new movements will result in the evolution of an East Asian economic bloc.

East Asian integration is not necessarily a bad thing and could in fact prompt new trade liberalization on the multilateral level. But an East Asian free trade area could also erect new discrimination against U.S. exports of at least $20 billion per year. And a unified East Asia could be an even more formidable competitor than Japan was in the past or China is today, though it should also be a more attractive market for both exports and investment from the United States.

On the financial side, the members of the AMF would hold monetary reserves of almost $1 trillion—the largest in the world and far larger than those of the United States or the countries of the eurozone. Japan and China would support each other's currencies with the two largest dollar hoards in the world, totaling more than $500 billion. The AMF could clearly rival the International Monetary Fund (IMF) and raise potential conflicts, including disputes over the conditions of country rescue packages.

As with Europe, the new economic developments in Asia carry foreign policy and security implications as well. A truly united East Asia could sharply reduce the risk of conflict in the region and hence be very much in the U.S. interest. On the other hand, a sense that America was being shunted aside by both Asia and Europe could reinforce isolationist tendencies within the United States.

A CHANGING GLOBAL SCENE

THE MAIN HISTORICAL underpinning of America's potential two-front economic conflict is the increasing multipolarization of the world economy. Despite America's prodigious economic performance in the 1990s, the EU is now the largest economic entity on the globe, and its lead will grow further as it expands its membership over the

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next few years. The euro, although still suffering numerous growing pains, has completed the region's economic integration.

East Asia has achieved an economic weight comparable to those of the United States and the EU, but it has learned that its disunity has precluded it from achieving equal status on the global scene. Its inferior position was made clear during the 1997–98 financial crisis, when the region became dependent on the international financial institutions directed by the Atlantic powers. The image of IMF Managing Director Michel Camdessus dictating terms to Indonesian President Suharto is bitterly seared into Asian memories, especially now that prominent Western economists argue that IMF programs actually made the crisis worse and point to how Malaysia has recovered effectively without IMF assistance. Under such circumstances, Asia's gross underrepresentation in the IMF and other key international institutions has suddenly attained great salience. The Asians have vowed to never again be in such thrall to the West.

In addition, the creation of the euro has prompted Asian countries to consider moving toward their own currency unit, albeit over a long period of time. More broadly, the traditional Asian repugnance toward "the huge bureaucracy in Brussels" has turned into widespread contemplation of emulating the basic European strategy of economic cooperation, despite recognition of the differences between the two regions and thus doubts about deep integration. Through biannual Asia-Europe Meetings, Asia is in fact seeking and receiving extensive European advice for its own coordination efforts.

The end of the Cold War has also contributed to the potential for a two-front economic conflict. The disappearance of the Soviet threat has reduced the importance of the American military umbrella over Europe and Asia. The security glue that traditionally encouraged the postwar allies to resolve their economic differences no longer exists. The semiannual U.S.-EU summits have been pitiful failures, and the Asia-Pacific Economic Cooperation forum (APEC), which seeks to prevent U.S.-Asia conflict by providing an institutional link across the Pacific, has only begun to address the issues posed by East Asian regionalism.

These changes in the global scene—Europe's and East Asia's achievement of rough economic parity with the United States, and the end of the Cold War—require a restructuring of global economic

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arrangements. Further delays in such reform will only heighten the risk of costly conflicts.

FOLLOW THE LEADER

A MORE SUBTLE CAUSE of the present crisis is the decline of effective U.S. leadership in the global economic system. This in turn stems from a domestic popular backlash against globalization and the resulting political stalemate in Washington.

During the postwar period, the pervasive tension between regionalism and multilateralism (mainly as a result of increasing European integration) was generally resolved in favor of multilateralism due to steady American leadership in that direction. The United States insisted on a new round of global trade liberalization after each major step in the European integration process, which otherwise would have created additional trade discrimination and likely emulation around the world. Thus the primacy of GATT was maintained. Indeed, a positive dynamic between regional and global trade liberalization remained consistent for more than four decades. Even when the United States itself began to embrace regionalism—from bilateral free trade with Canada to the North American Free Trade Agreement to the proposed Free Trade Area of the Americas (FTAA)—it was careful to simultaneously pursue new multilateral initiatives to ensure an umbrella of global trade liberalization.

Washington's ability to maintain such leadership has been severely curtailed over the past five years, however. Despite the strength of America's economy and the reduction of its unemployment rate to a 30-year low, the popular backlash against globalization has produced a political stalemate on most international economic issues. As a result, the president has had no effective authority to negotiate new trade agreements since 1994. Legislation to replenish the IMF languished for a year in the midst of the Asian crisis, until it was rescued fortuitously by the farm community's interest in restoring its exports to Asia. Even relatively straightforward issues—such as extending permanent normal trade relations to China or offering enhanced market access to Africa and the Caribbean—required lengthy, all-out presidential and business campaigns to persuade Congress.

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Largely as a result of this domestic standstill, America's international economic posture has been compromised. The United States' initial refusal in 1997 to contribute to the IMF support package for Thailand for fear of further riling Congress, for example, earned lasting enmity throughout Asia. The main reason for the debacle at Seattle was the United States' inability to propose a new round of trade negotiations that would meet the legitimate interests of other major players. Lacking the domestic authority to lower its own trade barriers, Washington was forced to offer an agenda that sought to reduce protection only in other countries—a prospect that was understandably unappealing to the rest of the world. Similarly, in 1997–98 APEC negotiations, the United States unsuccessfully pushed a program of sector-specific liberalization that focused almost wholly on U.S. export interests. And six years after the idea of the FTAA was launched in Miami, little progress has been made toward hemispheric trade liberalization.

America's international posture has been hurt by domestic backlash against globalization.

This international leadership vacuum has had two subtle but profound effects on the world economy. Like a bicycle on a hill, the global trading system tends to slip backwards in the absence of continual progress forward. Now, with no serious multilateral trade negotiations taking place anywhere in the world, the backsliding has come in the form of intensified regionalism (which is inherently discriminatory), as well as mercantilist and protectionist disputes across the Atlantic. An East Asian free trade area—and along with it, a three-bloc world—will likely emerge if the United States remains on the sidelines of international trade for another five years. Such U.S. impotence would also mean that the traditionally positive impact of regional liberalization on the multilateral process would give way to increasing antagonism and even hostility between the regional blocs.

The other chief effect of the leadership vacuum is increased international disregard of, or even hostility toward, the United States on the economic front. Because of its weight in the world economy, its dynamic growth, and its traditional leadership role, the United States remains the most important player in the global economic system. The other economic powers generally seek to avoid confronting it

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directly. The EU, for example, has tried to avoid overt battles, despite its escalating range of disputes with the United States. East Asian governments are careful to assure Washington that their new regional initiatives are fully consistent with existing global norms and institutions—a conciliatory stance that is in sharp contrast to Mahathir's shrill rhetoric of a decade ago and Japanese Vice Minister of Finance Eisuke Sakakibara's aggressive 1997 promotion of the AMF.

In reality, however, the United States is perceived as wanting to call the shots without putting up much of its own money or making changes in its own laws and practices. These specific economic complaints fuse with and feed on more general anti-American sentiments throughout the world. Hence, the two other economic superpowers are proceeding on their own. The EU has launched the euro, a new association agreement with Mexico, and negotiations with Mercosur (the trade bloc comprising Argentina, Brazil, Paraguay, and Uruguay); East Asia is pursuing the AMF and the East Asian free trade area. The result is a clear and steady erosion of both the United States' position on the global economic scene and the multilateral rules and institutions that it has traditionally championed. If not checked soon, this erosion could deteriorate into severe international conflicts and the disintegration of global economic links.

ALTERNATIVE MEDICINE

THE REMEDIES for this risky situation are intellectually straightforward but politically difficult. The cardinal requirement is to subsume the current bilateral disputes and evolving regional initiatives within a reinvigorated multilateral system that rests on an internationally shared vision of how to manage globalization. Such a system will have to restart the momentum of multilateral trade liberalization, provide a global umbrella that effectively reconciles the inevitable regional groupings, and negotiate rather than litigate the most politically sensitive disputes among the major powers. This remedy will require the restoration of a domestic consensus on globalization in the United States and considerable trade and financial reforms in Europe and East Asia.

The United States faces two tempting responses to the current tensions, each of which would be a mistake. One is to resurrect the

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mid-1990s proposal for a transatlantic free trade area (TAFTA) between the United States and the EU. TAFTA would erect new trade discrimination against East Asia and thus assure the acceleration of both its regional integration and its anti-Western orientation. In addition, TAFTA would discriminate against all developing countries—"the richest ganging up on the poorest"—and would end any prospect of their constructive participation in the WTO and other global institutions.

The second bad idea is for the United States to pursue the FTAA without simultaneously working toward a new round of multilateral negotiations at the WTO. The new Bush administration has indicated interest in the FTAA and will have an early opportunity to pursue it at the third Summit of the Americas in Québec in late April. Absent a parallel multilateral effort, however, such an initiative would validate the regional emphases of both Europe and Asia and spark new trade discrimination.

Although President Bush will not have enough time to obtain fast-track negotiating authority before going to Québec, he must work out enough congressional support to provide credibility for any pledges he makes at the hemispheric summit. While doing so, he could also seek congressional blessing for a broad-based initiative in the WTO to get the multilateral process back on track. Such an initiative would ideally move toward global free trade in which all regional trade preferences would be eliminated. The United States could then begin working with Europe and Asia to launch a new round at the WTO ministerial conference later this year, while still proceeding with inter-American integration at Québec. To buy time for this strategy to be implemented, the United States and the EU should broaden their "peace clause" on agriculture by declaring a three-year freeze on all retaliatory actions and complaints in additional sectors.

A useful adjunct to this strategy of renewed multilateralism would be cross-regional free trade agreements (CRFTAs) that cut across East Asia, Europe, and the Americas. Such pacts are already being pursued at the bilateral level, such as the U.S.-Singapore and Japan-Mexico initiatives, and at the super-regional level, as with APEC and the EU-Mercosur talks. Although these arrangements still create new discrimination and potential trade conflict and are thus decidedly inferior to multilateral liberalization, they could nevertheless dilute the regional

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groupings that may otherwise solidify into rigid blocs. Thus CRFTAs represent a useful addition to renewed multilateral efforts, or at least a second-best fallback if that preferred course turns out to be unobtainable in the near term.

A renewal of multilateral efforts is also required on the financial side. The IMF has already made significant policy changes but must now take additional steps to buttress its ability to prevent and quickly respond to crises. The main institutional change needed at the IMF is to accord East Asia more voting shares and leadership assignments to account for its greatly increased economic weight—mostly at the expense of Europe, which is overrepresented. The IMF also needs to address the costly instability and prolonged misalignments among the dollar, the euro, and the yen, which contribute to the need felt by the Asians to create their own monetary zone.

America must adopt stronger safety nets to cushion the blows of globalization.

The success of these remedies rests on the ability of the United States to overcome its crippling domestic resistance to globalization. This will be a difficult task for the new administration, but the potential threats to U.S. economic prosperity, its international leadership, and global stability should be enough to convince both the White House and Congress to agree on a new approach to the international economy.

This agreement should rest on several key elements. It must start from a clear consensus that globalization brings substantial net benefits to the American economy, including intensified competition that holds down inflation and thus permits the creation of millions of additional jobs. At the same time, Washington must acknowledge that globalization causes job and income losses in certain sectors, which exact significant psychological tolls. The government, therefore, has a responsibility to channel help from the winners to the losers, for humanitarian and equity reasons as well as to maintain political support for continued globalization efforts.

To fulfill that obligation, the country must adopt stronger safety nets, including more generous unemployment insurance eligibility criteria and compensation levels, portable health insurance and pensions, and perhaps a new program of wage insurance. Even more important,

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government and business leaders need to work together to provide better education and training programs to enable all Americans to benefit from globalization rather than feel victimized by it.

At the international level, the White House and Congress need to reassert American leadership in negotiating new agreements on both trade and finance, as described above, that will place the current conflicts into a broader global and strategic context. These agreements should, among other things, promote international labor and environmental standards that will avoid distorting either global competition or normal trade flows.

If Washington does not adopt such a strategy early on, the current situation could become much worse. The U.S. economy has slowed sharply, the unemployment rate will soon rise, and the annual trade deficit is approaching $500 billion (about five percent of GDP). Blame for such economic troubles will inevitably focus on foreign competition—especially if European and Asian countries raise new barriers against U.S. exports. Washington will feel intense pressure to retaliate against Europe and to thwart the rise of even tougher rivals in East Asia. It will also be tempted to adopt new unilateralist measures, such as withdrawal from international monetary cooperation and multilateral trade efforts.

Both the prospective global slowdown and any such U.S. reactions to it could accelerate the current trends in Europe and Asia. Tougher economic times will make it harder for Europe to resist its own protectionists, especially as French elections approach in 2002. Economic troubles will prod East Asians to speed their integration plans, as their financial crisis has already done. Any new protectionist or unilateralist steps taken by the United States would trigger parallel responses elsewhere. And any significant American slowdown would further embolden the Europeans and the Asians to overcome their humiliations over the initial fall of the euro and the shattering of the "economic miracle," respectively, and go their own ways.

This potential two-front economic conflict could severely threaten international prosperity and even global security. Restoration of both an effective global economic order and renewed U.S. leadership should be a top priority for the new administration and Congress.

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Middle East Peace Through Partition

David Makovsky

THINGS FALL APART

JUST LAST SUMMER, the seven-year-old Israeli-Palestinian peace process seemed on the verge of success. Palestinian Authority (PA) Chairman Yasir Arafat and Israeli Prime Minister Ehud Barak met with President Bill Clinton at Camp David and came close to agreement. But Arafat walked away from a deal at the last moment, and less than three months later the Occupied Territories erupted in violence. Now, after months of bloodshed and with the death toll approaching 400, it has become fashionable to say that the Oslo process (so called for the city where talks first began) is dead. Rumors of its demise, however, have been exaggerated. Its central objective—transforming the existential Israeli-Palestinian conflict by ending Israel's mutually harmful control over three million Palestinians in the West Bank and Gaza—remains as crucial today as it was seven years ago.

It was in Oslo in 1993 that the Israeli government, under then Prime Minister Yitzhak Rabin, first agreed to withdraw from parts of the West Bank and Gaza and opted definitively for territorial partition. With this shift in Israeli policy, Rabin crushed the Israeli right's dream of a Greater Israel. And he signaled his support for a

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solution to the conflict that envisioned a new state of Palestine arising alongside an Israel finally accepted by the Arabs.

The peacemakers at Oslo foresaw both separation and cooperation for the two states. Partition would occur in stages and be facilitated by confidence-building measures and a gradual easing of Israeli-Palestinian enmity. The two sides would cooperate in such areas as security and trade and defer resolving the most divisive issues, including Jerusalem and refugees. Arafat took the helm in Gaza and the PA was established in 1994, but underlying grievances endured and the spirit of cooperation soon soured, leaving part of the Oslo vision unfulfilled.

Now the ongoing misery in the region has made it clear that partition remains the only feasible option for resolving the conflict. And as Israel's only hope for peace, partition should be pursued whether or not the Palestinians agree to it. After the disastrous past several months, something more modest than Oslo is now in order. The move to a comprehensive deal should begin with a less ambitious but still enormous step: disengagement, which would put as much space as possible between the two sides.

A key premise of the Oslo talks was that formal peace agreements would produce greater trust and security for both sides. But although several interim accords have been negotiated, such trust has shown few signs of developing. Disengagement now could jump-start the process and ultimately evolve into full state-to-state cooperation. Even if it does not, however, it is a practical approach that could achieve stability—the next best thing. Focusing on disengagement may mean that Oslo's promise of full cooperation remains unfulfilled for the moment, but the alternatives—occupation, ethnic cleansing (or "transfer," as it is called in Israel), and Shimon Peres' vision of a harmonious "New Middle East"—are either unworkable or unthinkable.

In his final days in office, Clinton put forward the most detailed peace plan of any American president to date. But the Clinton plan was unrealistic, since it assumed that the Israeli-Palestinian conflict was on the brink of resolution. Now President George W. Bush must push for something less grandiose than a comprehensive deal while trying to halt the slide toward a Kosovo on the Jordan or even a full-scale regional war.

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Pursuing a middle course toward disengagement and then waiting for matters to stabilize should not, however, obscure the fact that Israeli-Palestinian cooperation remains a vital long-term goal. Just as current passions necessitate disengagement in the short term, the stubborn constraints of Middle Eastern geography necessitate cooperation in the long run. Israel has no military solution to Palestinian nationalism, and the Palestinians can never eliminate Israel through force. The two sides must learn to live together. After all, Israel at its center is no wider than Manhattan is long, and the adjoining West Bank is the size of Delaware. Israelis and Palestinians do not have the luxury of the kind of cold peace that Israel and Egypt—separated by hundreds of miles of desert—now share. Oslo's underlying two-state vision therefore remains sound, even as Israelis and Palestinians sift through the wreckage. Sooner or later, they will have to come back to partition.

WHAT WENT WRONG?

OUTSIDERS OFTEN ASSUME that the main source of conflict between the Israelis and the Palestinians is how to deal with the West Bank and Gaza. In fact, the conflict runs far deeper. Palestinians and Israelis have radically different historical narratives. These predate the occupation that began in 1967; they go to each side's self-conception as a historical victim, and they have engendered much mutual hatred.

Notwithstanding these deep grievances, however, Oslo suffered from more immediate problems: what the Palestinians failed to do, what the Israelis failed to do, both sides' unfulfilled hopes for the new PA, and the lack of strategy for final-status talks.

Perhaps Oslo's greatest problem was the inadequacy of the Palestinian leadership. Only Arafat—who embodied his people's nationalist aspirations since becoming leader of the Palestine Liberation Organization (PLO) in the late 1960s—had sufficient stature to sign an accord with the Israelis in 1993. But Arafat subsequently made three unprincipled decisions that crippled the peace process. First, he failed to repudiate violence as a negotiating tactic; in fact, he relished using it to achieve political goals. Second, Arafat subjected security cooperation with Israel to the vicissitudes of the political environment,

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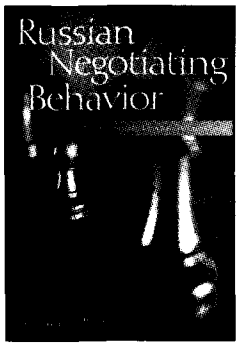

Russian Negotiating Behavior

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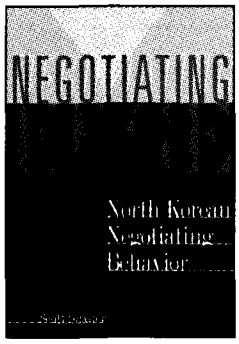

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thereby undermining Israel's faith in the stability of the "land for peace" equation. And third, unlike Nelson Mandela in South Africa, Arafat refused to equate peace with reconciliation, thus gutting any hopes that a deal between governments could be transformed into a far more meaningful—and lasting—peace between peoples.

The Oslo framework was based on Arafat's promise to Rabin that henceforth all disputes would be solved peacefully. To this end, Israel helped create an armed PA, giving it the security apparatus the Palestinian leaders deemed essential to wage war against the Islamist extremists of Hamas.

Perhaps Oslo's greatest failure was the inadequacy of the Palestinian leadership.

This Palestinian security force ultimately exceeded its agreed-on size limit by half and comprised no fewer than 12 different security services. Nonetheless, during the first three years of the PA's existence, Arafat resisted unceasing U.S. and Israeli entreaties to use his new muscle to clamp down on Hamas. According to the human rights group B'tzelem, 172 Israelis were killed during this period. All the while, Arafat gave speeches hailing the principle of jihad, and after the Hamas bomb-maker Yahya Ayyash was killed by the Israelis, Arafat publicly eulogized him as a martyr.

In 1996, when violence again erupted—this time after Likud Prime Minister Binyamin Netanyahu opened an underground tunnel near the plateau in Jerusalem's Old City that Jews venerate as the Temple Mount and Muslims as the Noble Sanctuary—Arafat remained silent for days before intervening to stop the riots, which killed 65 Palestinians and 15 Israelis. The rioting proved an effective bargaining tool for Arafat, breaking a logjam in negotiations then underway over Hebron. When riots broke out again on May 15 last year to mourn the anniversary of the birth of Israel and to demand the release of more Palestinian prisoners, precedent prevailed: Israel opted for diplomatic concessions once more, agreeing to yield villages around Jerusalem to PA control.

The most glaring example of Arafat's use of violence as a negotiating tactic came after last summer's Camp David summit. Arafat was unhappy with the American and Israeli positions—which included an offer of 94 percent of the West Bank and all of Gaza—but made

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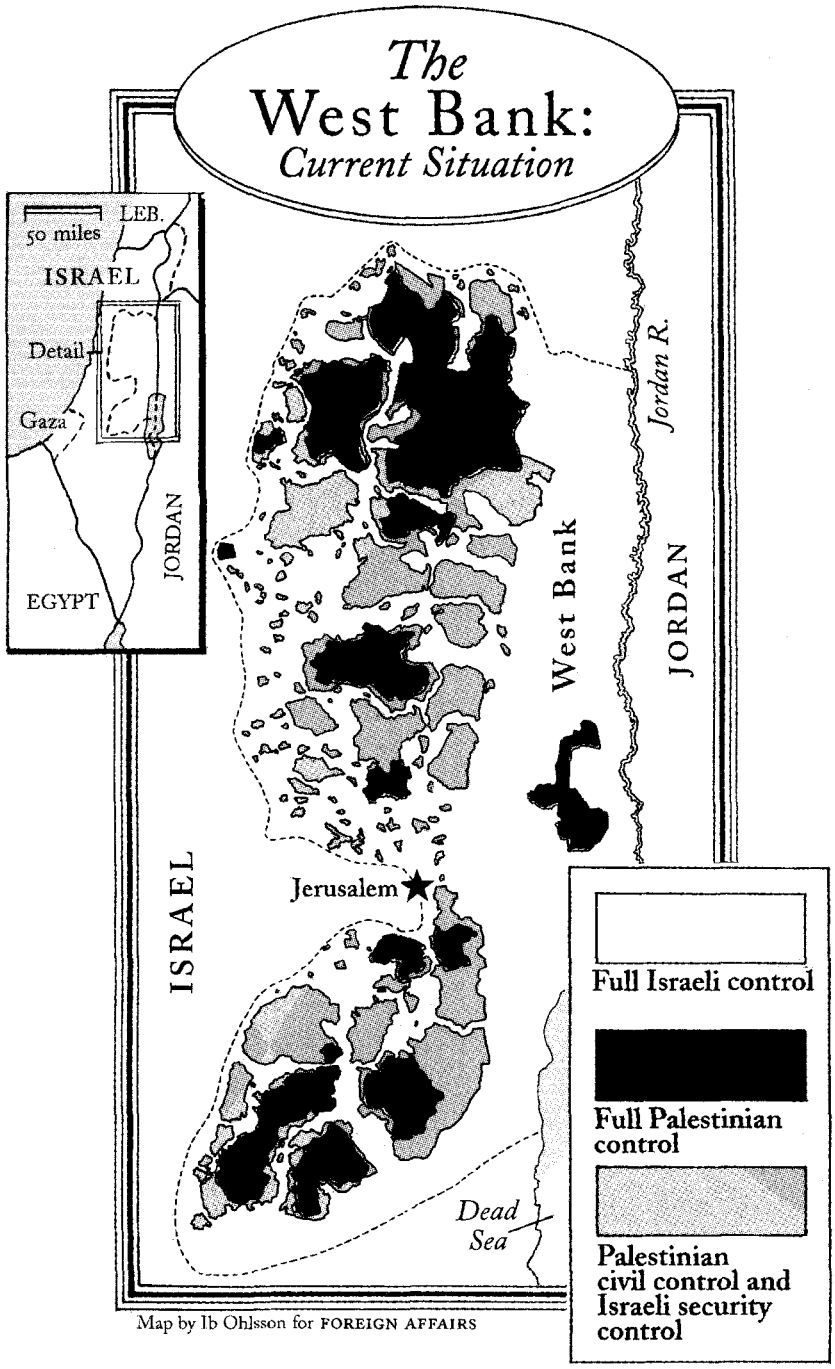

no proposals of his own. Whether or not he was actually responsible for the subsequent outbreak of violence remains subject to debate. But there can be little doubt that he fueled the fighting instead of trying to stop it. State-run Palestinian media exhorted crowds to participate, and daily coordinating meetings took place between Arafat's Fatah

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movement and members of Hamas and Islamic Jihad. On two separate occasions in October, the PA released known terrorists from prison, which seemed to be a green light from the PA for the subsequent terror attacks. Despite making promises to Clinton and other top U.S. officials, Arafat took nearly two full months to issue his first call for the Palestinians to reduce (but not halt) the bloodshed.

In a similar vein, the PA has often refused to coordinate security measures with Israel over the years. Security cooperation—which was to be Israel's principal benefit from Oslo—was held hostage to politics. As Israel's Deputy Defense Minister Ephraim Sneh put it in the fall of 2000, "the Palestinians have not delivered on Oslo's basic bargain: [a] state for security." This utter refusal of PA security forces to maintain direct contacts with the Israelis—or even to answer their cell phones during times of tension—eventually compelled the Clinton administration to use the CIA to help fill the void by acting as a liason between the two sides.

Beyond the use of violence as a negotiating tool and the on-again, off-again nature of security cooperation, Arafat's third failure of leadership was his refusal to publicly chart a course for reconciliation. After all, "land for peace" had been the original premise of all Arab-Israeli negotiations. Oslo was structured around step-by-step withdrawals and based on the implicit belief that further Israeli land concessions would take the edge off Arab enmity, which in turn would ease Israeli opposition to a Palestinian state. But as land was handed over, Palestinian calls for reconciliation never came. No programs were ever implemented to this end; in seven years, Arafat never gave a single speech in Arabic to his own people calling for reconciliation. This failure was critical, for arguments over the permanence and legitimacy of a Jewish homeland in the Middle East remain at the very heart of the Arab-Israeli conflict.

Arafat's failure to bury the hatchet has been duly noted by his constituents—as a comprehensive poll taken by the Ramallah-based Bir Zeit University last November showed. When asked whether they would recognize Israeli sovereignty over West Jerusalem if Palestinians gained sovereignty over East Jerusalem, an overwhelming 74 percent of Palestinians said no. Furthermore, 60 percent said they did not think there was a chance for peaceful coexistence between Palestinians and Israel. Another Palestinian poll released in December

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found that a full two-thirds of Palestinians supported "suicide operations" against Israel. These numbers are not surprising. After all, Arafat himself has likened peace with Israel to the Treaty of Hudabiyya, the temporary truce that the Prophet Muhammad made with the non-Muslim Quraysh in 628 AD—only to conquer those same people years later. Such rhetoric has made peace with Israel sound like a short-term ruse. And such sentiments were further exacerbated when Arafat publicly expressed doubts about Jewish attachment to the land of Israel. Arafat further alleged that Israel was "forging its history and reality" by claiming the existence of two ancient Jewish temples in Jerusalem.

All the while, Palestinian state-run media and state-backed Islamist preachers in mosques have launched unrelenting, venomous attacks against Israel and Jews. Palestinian schoolchildren are often taught to hate from a young age. And they are prevented from learning anything about Israel; the Jewish state's existence and location are conspicuously absent from many of their textbooks.

By articulating support for coexistence, Arafat could have moderated Palestinian hatred and broadened the Israeli public's support for withdrawal from the Occupied Territories. Egyptian President Anwar al-Sadat's statesmanlike visit to Jerusalem in 1977 had just such an effect. Arafat's failure to take such steps left Israeli moderates politically vulnerable—especially Rabin, Barak, and Peres.

FACTS ON THE GROUND

ISRAEL'S RECORD is not flawless. It did keep its end of the core bargain with the Palestinians by letting Arafat return to Palestine, by enabling the establishment of a Palestinian proto-government, and by giving it land to govern. Although the Israelis may not have violated the letter of their agreements, however, they certainly broke their spirit in one particularly sensitive area: settlements in the West Bank and Gaza. During the original Oslo talks in 1993, the Palestinians had wanted an explicit Israeli commitment to a settlement freeze. But Rabin, leery of a confrontation with the settlers, refused. And Israel, under both Labor and Likud governments, supported ongoing Jewish settlement expansion.

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According to Israel's dovish Peace Now, settlements today take up only 1.36 percent of the West Bank (excluding East Jerusalem and access roads), but the issue remains emotionally charged. Residential housing units under construction in the territories have expanded by 54 percent since 1993, and the number of Jewish settlers has grown from 115,000 to about 177,000. Bypass roads built to limit friction between settlers and Palestinians have only made things worse: Palestinians see the roads as land expropriations designed to make life easier for the settlers at Palestinian expense. As for the settlements themselves, most of the growth has taken place in three blocks near the pre-1967 borders of Israel, in areas that Israel intends to annex (the annexation was reportedly accepted by Arafat at Camp David). But the new homes—with their modern red-tiled roofs and community swimming pools—have created resentment among the Palestinians, who see them as an Israeli attempt to prejudice talks on final borders.

LETDOWNS

On top of Palestinian incitement and Israeli settlement expansion, each side feels the other has failed to observe its commitments under Oslo, thereby undermining faith in the integrity of the process.

Palestinians complain that Israel has repeatedly broken its deadlines for withdrawing from the West Bank. Although Israel has in fact yielded 40 percent of the West Bank to full or partial PA control, and although virtually all Palestinians now live in such areas, the Israeli occupation has been only partially dismantled. Signs of Israel's ongoing control abound, and these—especially the Israeli checkpoints on main roads between Palestinian cities—are offensive to Palestinians.

Israel, meanwhile, complains that the PA releases Hamas terrorists from its custody in a revolving-door fashion, that weapons are regularly smuggled into the territories, and that the agreed-on quotas of the number of Palestinian security forces have been blithely ignored. When the Netanyahu government shone a spotlight on the fact that Palestinian textbooks and state-run media continue to challenge Israel's very existence—in violation of Oslo provisions against incitement—the prime minister was derided for seeking a pretext to halt the peace process. But the Israeli left could never explain why, if

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the PA was genuinely committed to partition and coexistence, it refused to stem the tide of bilge.

In addition to these grievances, the PA itself represents an enormous economic and political failure. In the six years following Oslo, the Palestinians saw their per capita GNP remain flat at $1,600. The Palestinians blame this on Israel's tight control of their borders and its closures of the territories during much of this period. Until a wave of Palestinian knifings of Israelis in early 1993, an estimated 140,000 Palestinians worked as day laborers in Israel, either legally or illegally, and they made vital contributions to the underdeveloped Palestinian economy. But the number of day laborers plummeted in the aftermath of terror attacks, and they were eventually replaced, mainly by Romanian and Thai guest workers. The majority of Palestinians, including Arafat, decried the closures as collective punishment, souring the climate still further.

Despite Palestinians' complaints, however, many of their economic woes are self-inflicted. Arafat has done little to wean his people from their economic dependence on Israel. The PA's only notable economic success was the creation of a casino in Jericho, which attracted Israelis forbidden to gamble inside Israel's borders. As a revolutionary, Arafat has considered it beneath his dignity to focus his energy and resources on economic development; last summer he angrily waved away CNN reporter Christiane Amanpour when she asked him about such issues.

As bad as they are, the Palestinians' economic woes are only part of a broader problem: namely, scant government accountability. The PA is thoroughly corrupt. And although it has a popularly elected legislature, its executive branch remains authoritarian. Israel, which believes that a strong-armed government is more ruthless and hence more effective at fighting terror, has not pressed for reform. Thus the Palestinian rulers, insulated from the public, have managed to shirk responsibility for their misrule and blame their problems on external foes.

A SLOW ROAD TO NOWHERE

THE GRADUALISM that was Oslo's signature style held both promise and peril. Unfortunately, instead of slowly building support, the incremental Oslo process let leaders on both sides defer tough decisions on core issues. This delay wound up eroding confidence rather than

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enhancing it. The process also allowed each side to make contrary claims at home. With no road map for a final deal, Israeli leaders were able to continually promise their constituents what they wanted—including a united Jerusalem under Israeli sovereignty—while Arafat could promise his people what they wanted—including the right of return for all Palestinians to long-abandoned homes inside Israel. Arafat sold Oslo to his public by telling them it guaranteed a return to the 1967 lines and entailed no compromises. He led his people to believe that they would get 100 percent of the land they wanted. This unsurprisingly led to unrealistic expectations and the explosion of frustration (egged on by the PA) that followed the failure of Camp David.

When it finally came time to discuss the ultimate issues, still another set of problems arose. Barak came to office in the summer of 1999 promising to solve the entire Arab-Israeli conflict within a year. This pledge was based on his willingness to make far-reaching concessions, on his excellent relationship with Clinton, and on his desire to counteract the threat posed by the rising power of Iran and Iraq. Barak figured that his best chance to get the Palestinians to compromise while neutralizing the last military threat on Israel's borders was to cut a separate deal with Syria. But when the Syrian track collapsed in the spring of 2000, it proved to have been a major detour, consuming the first eight months of the Barak administration—the time when the premier's popularity was at its height.

By spending so much time on the Syrians, Barak more than halved the period in which he could strike a deal with the Palestinians and still reach the September 13, 2000, target date for the end of negotiations. Then, to make matters worse, after details from secret talks in Stockholm leaked last summer, the Palestinians refused to discuss issues seriously. Meanwhile, the United States failed to persuade either Egypt or Saudi Arabia to acquiesce to a deal or provide sorely needed political cover for Arafat that would let him make compromises on Jerusalem. With the deadline looming, the Palestinians publicly complained that Israel was dragging its feet. But it was Barak who felt the keenest sense of urgency. Once the extent of his planned concessions leaked, his coalition effectively disintegrated, shrinking to 42 seats in the 120-member Knesset.

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At the Camp David talks, both sides considered taboo-breaking concessions on once intractable issues. But the talks ultimately foundered on the questions of Jerusalem—specifically, Arafat's unwillingness to share sovereignty over the Temple Mount—and the Palestinian refugees.

Arafat never told the truth to the Palestinian exiles who fled or were chased from Israel in 1948: that not even Israel's leading doves could accept their return to the country. To allow three million Palestinians to return to a nation of five million Jews and one million Israeli Arabs would be the death knell of the Jewish state. Arafat should have told the refugees to focus on finding new homes elsewhere or next door, in the new state of Palestine. But he lacked the courage to do so. This made compromise all the more difficult.

THE ENDURING PROMISE OF PEACE

DESPITE its apparent failure, the Oslo process achieved many important gains for both sides, which should be kept in mind when discussing any future peace plan. The Palestinians won a peculiar country-like status, with institutions (including various ministries, a parliament, and security services) that would constitute the nucleus of their future state. And Arafat began to be treated everywhere as a de facto head of state. Before Oslo, he was not permitted to visit the United States; afterwards, he became the leader most often invited to the Oval Office. Clinton himself addressed the Palestine National Council in Gaza, which Palestinians saw as an endorsement of their hopes for statehood.

For Israel, the gains came in different arenas. When security cooperation with the Palestinians actually worked, it had positive results. For example, in 1999 Israel suffered the fewest civilian fatalities due to terrorism (two) in any one year since 1987. Oslo also enabled Israel to transform its covert security links with Jordan into a full peace treaty and to strengthen its ties with strategically positioned Turkey. In addition, Israel gained lesser forms of diplomatic relations with 8 of 22 members of the Arab League. It participated in four U.S.-backed regional economic conferences, and Western investors poured billions of dollars into the country. Most important, the 1990s was the

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first decade since Israel's creation in 1948 that passed without an Arab-Israeli war.

OVER HERE

THE AMERICAN ROLE in the Israeli-Palestinian negotiations has varied over the last decade, depending on who held power in Israel. When the right-leaning Likud ruled, Washington took an active stance, fearing that a less conciliatory Israeli government might provoke a regional conflagration and jeopardize U.S. interests. Such activism led to the U.S.-brokered Madrid conference in 1991 and Wye River agreement in 1998.

When a center-left Labor government has led Israel, however, the United States has generally acted as a facilitator, helping out when needed but letting Israel set the pace. It is no coincidence that the original Oslo agreement itself was struck without U.S. involvement.

Washington dropped this back-seat approach last summer, however, when despite the constant dialogue, Israelis and Palestinians seemed unable to agree on final status issues. Led by Clinton, American diplomats at Camp David shuttled between the two sides; Barak and Arafat did not once meet alone during the 12-day summit.

It has become popular to blame Clinton for his intensive role at Camp David, but such critiques are unfair. Oslo and subsequent agreements had set target dates for resolving final-status issues, and these were about to expire. Moreover, Barak's ruling coalition was disintegrating. He himself asked Clinton to convene the summit, telling him the time was "now or never."

Clinton has also been taken to task for the last-ditch suggestions he made on December 23rd of last year. The lame-duck president presented the Israelis and the Palestinians with the most explicit and far-reaching proposals suggested by any American government to date. Under his plan, the Palestinians would get control of almost all of East Jerusalem, including much of the Old City; exclusive sovereignty over the Temple Mount; and a formula that would enable some Palestinian refugees—as determined by the Israeli government—to move into pre-1967 Israel. Barak provisionally supported the proposals, while Arafat's aides gave them "qualified acceptance"—

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with so many objections that the Palestinian acceptance was all but meaningless.

This time, the criticism of Clinton was merited. Although the U.S. president's proposals approximated the ultimate compromises necessary for a final deal, they were divorced from current reality. In the months since Camp David, the situation had changed drastically. Although sharp Israeli concessions might have been appropriate last summer, they were much less so after all the bloodshed. The latest uprising shattered hopes that the conflict would soon be resolved. And without an end to the fight in sight, the Israeli public now fears that far-reaching sacrifices on Jerusalem (of the kind Clinton proposed) will make them physically vulnerable. They are thus much less interested in compromise. Instead of pushing for a deal, then, the Americans should have focused on ending violence and restoring trust. In failing to do so, Clinton left a dangerous legacy for the new Bush administration; his ideas could become lasting U.S. policy whether or not an end to the conflict is within grasp.

BREAKING UP IS HARD TO DO

To UNDO the damage, Bush should now acknowledge that a comprehensive deal is not at hand, and he should work with Israel's new prime minister to enhance stability in the region while assuming that conflict may continue. Bush can do this by promoting disengagement. This would not close the door on a broader ultimate deal, however, for disengagement is an interim idea. But the length of this interim should not be set by an artificial deadline. Before moving toward closer ties, Israel should look for tangible signals that the Palestinians are truly ready to end the conflict and start cooperating. The criteria of cooperation are not amorphous. They include resolving disputes peacefully, guaranteeing permanent security cooperation, and working toward reconciliation. This last point means putting an end to the use of state-run media and school curricula to delegitimize Israel, and promoting instead a normalization of ties between the two societies. Until such criteria are met, diplomacy should be predicated not on the Oslo assumption of land for peace, but on something less romantic: a strategic Israeli withdrawal from most of the territories in return for

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a protracted truce or the kind of nonbelligerency that Israel and Egypt agreed to in 1975 (the "Sinai II" disengagement agreement), which paved the way to their 1979 peace treaty.

Such a middle path has advantages for both sides. Modern Israel cannot retain control over all its biblical territory while remaining a Jewish state and a democracy. And only after the Palestinians relinquish claims to the 1948 borders can they start addressing their own endemic problems.

If done properly, disengagement will provide Israel with more rational and defensible borders and give the Palestinians the potential for a viable state. Israel should consolidate its settlements in the West Bank into three blocks (where close to 80 percent of the settlers already live) while dismantling all of the other smaller and less defensible settlements elsewhere in the territories (including all the settlements in Gaza). Israel could then annex the consolidated West Bank settlement blocks as envisioned at Camp David. This would serve Palestinian interests as well. The Palestinians would still get the overwhelming majority of the West Bank and Gaza. And consolidation would make their territory contiguous, not split apart by scattered Israeli settlements and access roads. Meanwhile, keeping the populations apart and erecting borders between them would reduce the grinding friction that has poisoned relations over the last 33 years.

European Union–style open borders between the two states may be possible at some point in the future, but only after a drastic improvement in relations. Israelis today are justly afraid of terrorism, and the Palestinians justly want the Israelis out of their lives. Polls demonstrate that disengagement is popular in both communities. And if the violence worsens, disengagement will become even more attractive.

Of course, cooperation is ultimately necessary, for only by cooperating can the two sides resolve the vital issues of refugees and control of Jerusalem. Deciding the status of the Jordan Valley—the eastern frontier where Iraq attacked Israel in 1948 and menaced it in 1967—may also have to be deferred until Israel finally makes peace with Iraq. But such cooperation can come only after disengagement, not before it. As Rabin once put it, Israelis and Palestinians should "separate out of respect."

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Meanwhile, disengagement would allow the Palestinians to declare statehood, a cherished goal. Israel would be able to withdraw its troops. And disengagement would provide a psychological boost to both sides, who have been badly traumatized in the last generation. Palestinians have suffered the humiliating Israeli occupation, while Israelis have lived with the daily threat of terrorism. Each side now needs some breathing space to recuperate, and a border behind which to do so.

This does not mean that a Great Wall of China should be built in the Middle East, however. A wall with windows is required. The geography of the region is so intimate that the two states will have to share resources such as electricity grids and water for the foreseeable future. The PA depends on Israel for a third of its GNP, and if regulated properly, economic interaction could continue. Furthermore, the two sides need to cooperate on security, as Israel does with Jordan.

Disengagement would preferably be achieved by agreement and not simply a unilateral Israeli fiat. Such an agreement might anger those Israelis who now believe that nothing can be gained from further negotiations with the truculent Palestinians. Unilateral action would also be tempting because it would enable Israel to draw its own territorial lines, regardless of the impact on the Palestinians. Such temptation should be resisted, however, unless the Palestinians refuse to cooperate and Israel is left with no alternative.

There are several reasons why a deal on disengagement—even a tacit arrangement—would be better than a series of uncoordinated, unilateral land-grabs. Due to the small size of the region and the need for a shared infrastructure, security cooperation, and economic links, any uncoordinated step is guaranteed to cause conflict. Second, coming on the heels of last spring's unilateral Israeli pullout from Lebanon, an unnegotiated withdrawal from the territories would further erode the perception of Israel's strength in the neighborhood. Indeed, Hamas has already trumpeted what it calls the "Hizbullah model" for gaining territory: do not negotiate with Israel—expel it. Many Arabs would therefore likely interpret the immediate, unilateral dismantling of several isolated settlements as a sign of Israeli weakness. On the other hand, a deal on withdrawal would give Israel the political cover needed to dismantle settlements without undermining its deterrent.

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An agreement, then, is clearly preferable to unilateral Israeli action. If the Palestinians prove unwilling to comply, however, Israel should wait until the current violence dies down—or simply wait for a decent interval—and then act alone to disengage.

BUSH'S BURDEN

THE SCALED-DOWN approach to Middle East peace presented here should not seem alien to the Bush administration. After all, Republican realists traditionally argue that security emerges not from a contractual peace but from realistic, mutually acceptable arrangements designed to enhance stability.

To lay the groundwork for disengagement, the United States should help the Israelis and Palestinians contain the chaos and halt the violence. The Bush administration must discourage what PA cabinet minister Nabil Sha'ath has called the "Algerian model"—to negotiate amid violence. There should be no diplomatic reward for bloodshed. Secretary of State Colin Powell and other top aides should also recognize how the toxic public environment is poisoning negotiations and get serious about combating incitement. And they should be less tolerant of violations of the agreements by either side; peace will not work if treaties are not implemented fully and fairly.

At the same time, the United States should do what it can to make the PA more viable, encouraging Palestinian economic development in order to dilute the PA's dependence on Israel. Washington should urge the Persian Gulf states to use a fraction of their recent oil profits to employ Palestinians as guest workers. And the United States should start promoting Palestinian democracy in a bid for more accountable, less corrupt government.

Finally, Washington must remind the parties—both Arafat and Israel's newly elected prime minister—that merely creating a border will not absolve them of their responsibilities. Palestinians and Israelis must learn to speak the language of reconciliation, or else cooperation will remain elusive. Even once a real border and state-to-state relations are established, consistent joint counterterrorism efforts will remain essential.

Above all, the Bush team must understand that it cannot walk away from this volcanic situation. The stakes for Washington are

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high, and benign neglect of the Israeli-Palestinian conflict will occur at America's peril. More than at any other time in the last three decades, tensions in the region now have the potential to escalate. The situation could quickly change from a nationalist conflict to an absolutist religious struggle or from an isolated fight to a regional conflagration. Top American national security officials have called the Middle East the most dangerous flash point in the world. If Clinton was drawn to Middle East peacemaking by rising hopes, Bush will be dragged in by rising fears. The region remains of critical importance to the United States due to the U.S. dependence on affordable oil from the Persian Gulf, its desire to contain a defiant Saddam Hussein, and its special relationship with Israel.

Any American Middle East strategy should therefore include other countries in the region. Apart from Israel, the United States must also consult with its Arab allies, especially Egypt and Saudi Arabia. Although almost no Arab leader wants a war with Israel, one could still break out. The Hizbullah militia, for example, has sought to exploit the current violence by launching cross-border attacks from Lebanon, despite Israel's unilateral exit from that country. Washington has warned Hizbullah's Syrian patrons that it will not restrain Israel from retaliating against Syria for further attacks, which could easily lead to war. Such an Israel-Syria clash could quickly spread. Indeed, there have already been massive public demonstrations in Arab capitals—especially Amman, Cairo, and Rabat—protesting the violence in the West Bank and Gaza. The situation could therefore rapidly spin out of control.

A SEPARATE PEACE

THE IDEA of partitioning the region first arose in 1937, when the United Kingdom, which then held the League of Nations Mandate for Palestine, set about to restore order after the Arab riots of the previous year. In its report on the violence, the Peel Commission wrote,

> An irrepressible conflict has arisen between two national communities within the narrow bounds of one small country. There is no common ground between them. Their national aspirations are incompatible.

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> The Arabs desire to revive the traditions of the Arab golden age. The Jews desire to show what they can achieve when restored to the land in which the Jewish nation was born. Neither of the two national ideals permits of combination in the service of a single State. … But while neither … can fairly rule all of Palestine, each … might justly rule part of it.

The idea of partition was accepted by the Jews then but fought tooth and nail by the Arabs. Only half a century later would the Palestinians finally come to accept the commission's logic. For all of Oslo's problems, the ideas of separation and mutual recognition remain its irreducible core and its most important legacy. Peace will come to the region only through partition—not because it is an ennobling or lofty vision, but because there is simply no other way.

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The Uneasy Americas

Peter Hakim

KEEPING IT TOGETHER

THIS APRIL, President George W. Bush will travel to Québec City for a summit meeting of the western hemisphere's heads of state. Thirty-three other leaders will attend the conference, the third such gathering since 1994, and each will come eager to hear the new U.S. president's plans for dealing with the region. The summit will be an ideal place for Bush to try out his ideas before an attentive foreign audience. But if he really wants to improve hemispheric ties, Bush must come prepared to do some serious listening, to get to know his Latin American colleagues, and to hear firsthand their priorities and concerns.

Should he make such an effort, Bush will learn that the United States' relations with Latin America are fundamentally sound. Most American governments are happy to cooperate with Washington, and they expect it to take the initiative on many crucial matters.

Probing a bit more deeply, however, Bush and his advisers will discover a number of serious problems under the deceptively smooth surface. Hemispheric affairs are far more troubled today than they were only a few years ago. Many of Latin America's leaders face serious political and economic troubles at home, and many are disappointed with current U.S. policies—particularly with Washington's expanding intervention in Colombia and its lagging efforts to pursue economic cooperation and hemispheric free trade.

Bush should heed the warnings. If Latin America loses confidence in Washington—which has seemed indifferent at some points and

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headstrong and inflexible at others—the opportunities for American leadership in the hemisphere will diminish, along with hopes for an effective U.S.–Latin American partnership.

COOPERATION AND CONVERGENCE

FOR THE LAST 12 years—roughly since the start of the first Bush administration and the end of the Cold War—relations between the United States and Latin America have been more cordial and cooperative than at any other time in memory. With almost every Latin American nation scrambling for U.S. investment and trade preferences, the once familiar cry of "Yankee go home" is no longer heard anywhere in the hemisphere, and "gringo" has ceased to be a term of opprobrium. Even Brazil, which has frequently clashed with the United States over specific issues and initiatives, now boasts that its relationship with Washington has never been better.

Many factors contributed to this improvement in the texture and tone of U.S.–Latin American links. The dramatic turn toward democratic politics and market economics in Central and South America was a powerful element; in 12 years, nearly every nation in the region came to share the same basic political and economic ideals. Another factor was the passing of the Cold War. With it, U.S. policy toward Latin America became more relaxed, and security concerns no longer trumped everything else.

A number of constructive U.S. policy initiatives also contributed to the growing goodwill. Within weeks of taking office in 1989, the first President Bush put forth the kind of debt relief plan that Latin America had long sought to resolve its decade-long economic crisis. The Bush administration also contributed to the peaceful settlements of Central America's festering civil wars, negotiated the North American Free Trade Agreement (NAFTA) with Mexico and Canada, and announced a plan to forge free trade ties with every other country in the Americas.

When its turn came, the Clinton administration carried these initiatives forward without missing a beat. Within a year of taking office, Bill Clinton got Congress to approve NAFTA. Shortly thereafter, in 1994, he convened in Miami the first hemispheric summit meeting

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since 1967. And at that conference, the assembled leaders agreed to complete an all-Americas free trade pact by 2005. Under Clinton's leadership, Washington also orchestrated generous financial rescue packages for Mexico and Brazil, which stemmed the deepening economic crises in those countries.

THE HONEYMOON ENDS

DESPITE THESE many accomplishments, however, relations are starting to sour once more, and in the near future, U.S.–Latin American ties are likely to become far more contentious. Indeed, there are already clear signs that the goodwill and cooperation that characterized most of the past decade are evaporating.

To begin with, most Latin American countries are worse off today than they were just a few years ago. The early 1990s were years of heady optimism throughout the region. Democracy took hold in country after country, promising greater justice and enhanced security. The magic of economic reform produced an upswing in growth and a sharp drop in inflation. These developments were expected, in turn, to translate into higher wages, lower unemployment, declining poverty, and improved public services. The United States, the region's most important trading partner and its largest source of capital, promised more secure access to U.S. markets and investment capital for Latin American producers. These promises were widely seen as a sure-fire means to anchor and accelerate the region's economic and political growth.

Things did not work out that way, however. Two debilitating financial crises, in 1995 and 1998, interrupted Latin America's economic progress and revealed its continuing vulnerability. As economic growth rates dropped by 40 percent between the first and second halves of the decade, unemployment soared and the region's halting social advances came to a standstill. These reversals sapped Latin America's confidence in its ability to compete successfully in the globalized economy. Although no American country has yet retreated from market economic policies as a result, doubts have multiplied about the benefits of free trade and about the pace and breadth of the economic reforms long advocated by Washington.

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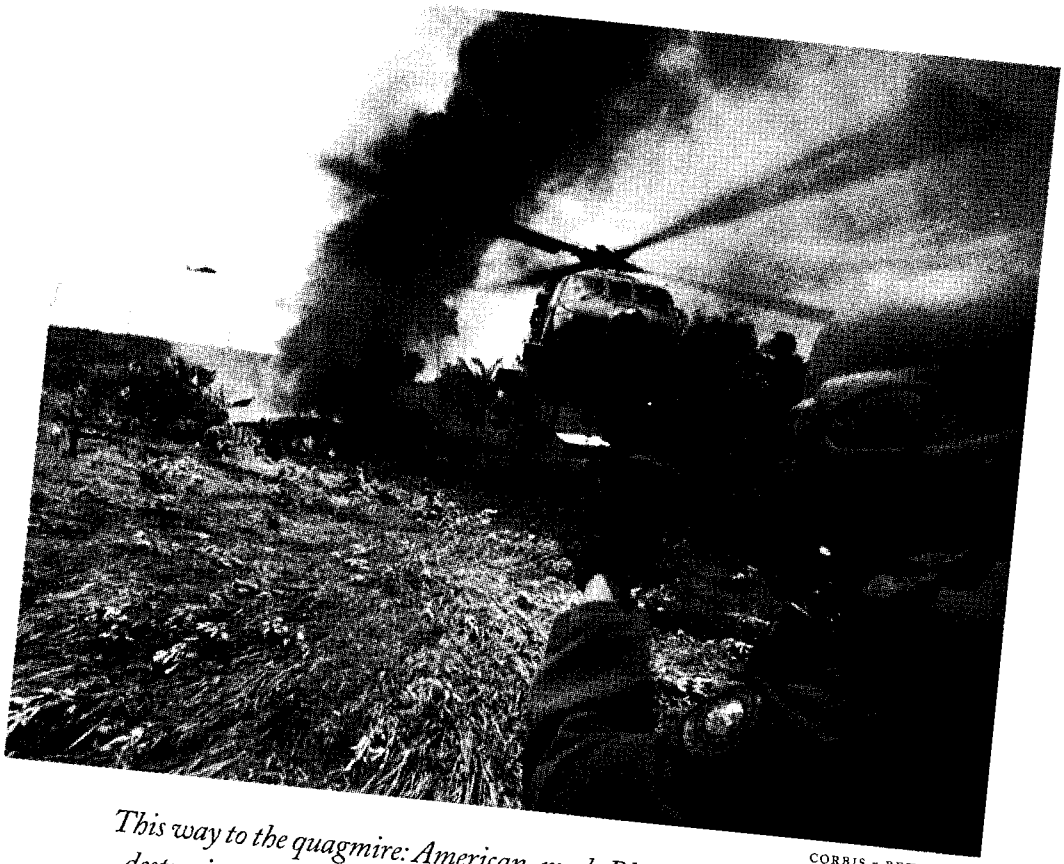

CORBIS - BETTMANN

This way to the quagmire: American-made Black Hawk helicopter destroying a drug laboratory, Catatumbo, Colombia, May 2000

The setbacks to democracy throughout the region have been even more serious. They are not, as some U.S. officials have portrayed them, mere bumps in the road. To be sure, Latin American democracy has scored some recent triumphs—none more stunning than last year's presidential race in Mexico, in which an opposition candidate, Vicente Fox, triumphed in the country's first truly free elections. But in most other countries, the news has been more distressing, and nowhere more so than in South America's Andean region. In Peru, the government of Alberto Fujimori grew increasingly autocratic and corrupt until it finally imploded last year. With Fujimori now in exile in Japan, Peru confronts the enormously difficult task of rebuilding its institutions. Meanwhile, Colombia's elected government is losing control while democratic institutions are being battered by a relentless guerrilla war, horrendous human rights abuses, and pervasive criminal violence. Last year, Ecuador suffered South America's first successful military coup in 24 years, and in Venezuela, political power

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is being concentrated in the hands of President Hugo Chávez, who scorns representative democracy. Such governance problems are not confined to the Andes, either. Democracy is also under assault to varying degrees in many other countries—Haiti, Nicaragua, Guatemala, and Paraguay, to mention a few.

Meanwhile, although democracy still prevails in most of Latin America, political institutions—including parties, legislatures, and courts—perform dismally. Contrary to expectations, the demise of Latin America's military rulers has not led to the steady consolidation of democracy and the rule of law, which remain weak and vulnerable in many countries. Even in the sturdiest regional democracies, citizens are deeply unhappy with their governments. In the past year, the approval ratings of more than half of South America's leaders fell below 20 percent.

Most Latin Americans do not blame the United States for their problems. Even those countries suffering the worst political and economic turmoil have not cast Washington as the villain. Indeed, the United States is still often seen as critical to solving many national problems. When their economies teetered on the brink of disaster, both Mexico City and Brasília turned to Washington for help. From the day it took office, Andrés Pastrana's government in Colombia has sought massive U.S. support for its struggle against guerrillas and drug criminals. In Peru, the opposition looked to Washington for assistance in the battle against Fujimori's authoritarian ways. And two countries—Ecuador and El Salvador—have adopted the U.S. dollar as their national currencies to ward off economic crises.

Still, throughout Latin America, the United States is closely identified with the widely implemented reform programs (known as the "Washington consensus") that have yielded such disappointing economic and social results in so many countries. The reforms, although essential for economic success, are popularly associated with austerity, insecurity, and high unemployment. For many Latin Americans, closer relations with the United States simply mean more of the same. Opposition to these reforms could therefore easily turn into opposition to U.S. leadership in general—and into antagonism toward the International Monetary Fund and the World Bank, both of which are seen as U.S.-dominated institutions.

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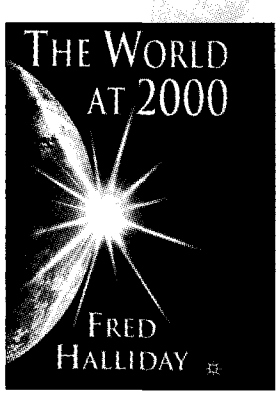

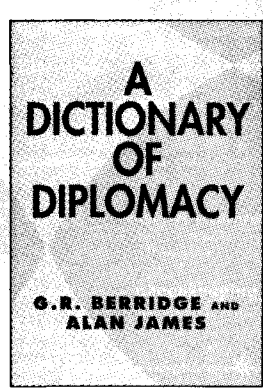

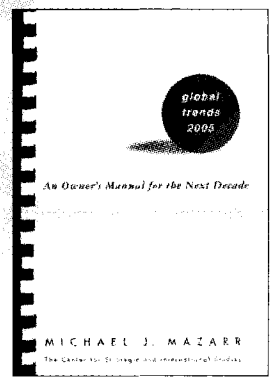

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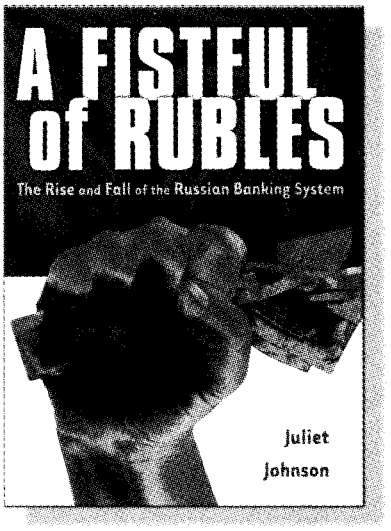

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The timing of events, moreover, has not helped perceptions. Even while most of Latin America has remained caught in economic doldrums, the United States has enjoyed its longest economic boom ever. In this light, it is hardly surprising that many in the region have come to think that the global economy is stacked in favor of the United States and other wealthy nations—and that new rules, different from those long advocated by Washington, are needed if Latin America and other developing areas are ever to compete successfully.

FREE TRADE FREEZE

TRADE AND INVESTMENT dominate the agendas of nearly every Latin American country in their relations with the United States. Nothing is considered more important to the region's economic future than expanded access to U.S. markets and investment capital. And nothing has raised more doubts about Washington's commitment to regional cooperation than its foot-dragging on hemispheric trade—particularly during a time of such prosperity in the United States.

It was only last December, in the eleventh hour, that the Clinton administration finally took steps to fulfill two pledges it made during the 1994 summit in Miami—to incorporate Chile into NAFTA and to provide Central America and the Caribbean with enhanced access to U.S. markets. For six years, the U.S. Congress, pressed hard by a handful of domestic textile manufacturers, had regularly rejected such preferences, which were finally approved in May 2000 as part of a larger trade package for Africa. Although this step was welcomed as the first expansion of NAFTA since 1994, Latin Americans hardly considered it a strong signal of U.S. commitment to regional trade.

Chile's experience has also been disheartening. For the past decade, there has been broad support in the United States for a free trade arrangement with Chile, the region's outstanding economic performer. But disputes within the White House kept negotiations on ice. Then, with only a month left in his presidency, Clinton announced that Chile talks would finally begin. Having suddenly initiated such negotiations with Singapore, it had become too embarrassing for the White House to put off Chile any longer. Now it is up to the Bush administration to conclude an agreement with Chile and gain congressional approval

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for it. Bush's success or failure will be widely viewed as an indicator of his future stance on hemispheric trade policy.

Even more damaging to Washington's credibility on Latin American trade was Clinton's failure, over a six-year period, to get Congress to renew fast-track negotiating authority. Fast-track authority, which expired in 1993, basically waives Congress' right to amend trade agreements by forcing it to vote either yes or no on a trade bill without making any changes. Because it was discussed so often and promised for so long, fast track became emblematic of the United States' commitment (or lack thereof) to hemispheric free trade—and to broader economic and political cooperation with Latin America. With Congress' ongoing refusal to renew fast track, Latin Americans became increasingly skeptical of U.S. support for the so-called Free Trade Area of the Americas (FTAA) and other U.S. pledges to the region. Should President Bush now fail to move quickly to recover fast-track power, he will send the message that hemispheric trade relations are not a high priority for his administration.

Latin Americans have grown skeptical of Washington's support for free trade.

Fortunately, Bush's campaign rhetoric suggests that he understands just how important the free trade agenda is to Latin America and its relations with the United States. In a speech in Miami last August, Bush stated that he intended to achieve "free trade agreements with all the nations" of the region and later insisted that "fast-track trade authority is on the way."

But no matter how sincere were these pledges, the new administration's good intentions will hardly guarantee the passage of fast track. Even with a full-court press by the White House, the outcome remains in doubt. To succeed, President Bush may have to compromise with Democratic lawmakers on the sensitive issues of workers' rights and environmental protection, backing away from the standard Republican position that these issues have no place in trade negotiations. It was just such a compromise that allowed for NAFTA's approval in 1993, when labor and environmental standards were incorporated into special side clauses. But many congressional Democrats, union officials, and environmental activists are convinced that the 1993 measures have proven toothless, so achieving a compromise agreement

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today will be much harder. Still, such an agreement is probably the only way the White House will obtain fast track any time soon.

Such a compromise may create another problem, however. The inclusion of labor or environmental standards in the FTAA is vehemently opposed by the great majority of Latin American governments. These governments fear that such standards will raise new and unfair barriers to their exports and end up as just another U.S. restriction on foreign trade. Latin Americans are especially hostile to the idea of using trade sanctions to enforce labor and environmental standards—an approach that President Clinton seemed to endorse at last year's World Trade Organization meeting in Seattle. Given the importance of U.S. markets to their economic prospects, Latin American countries may end up swallowing such demands. But this will not resolve their underlying opposition or quell their resentment; it will only postpone conflict until the implementation stage.

Assuming that the Bush administration does manage to secure fast track relatively soon, there is still no guarantee that FTAA negotiations will proceed smoothly, even aside from labor and environment conditions. The final round of FTAA talks, which begins in 2003, is scheduled to be chaired jointly by the United States and Brazil and may prove particularly difficult. The two countries publicly disagree on a number of core issues that will not be easy to resolve. And President Fernando Henrique Cardoso's government has already made it clear that it is in no hurry to negotiate on the FTAA, which it views as a second-order priority, or to conclude matters by the agreed-upon 2005 deadline. This position reflects the strong opposition that exists to the FTAA, not only in Brazil's labor movement, but also among many in its powerful business community who doubt that Brazil can compete with U.S. suppliers.

Complicating matters further is Brazil's growing assertiveness and influence in regional and global affairs. The country seems bent on establishing a second pole of power in the western hemisphere. This was most evident in August of last year, when Cardoso convened in Brasília the very first summit meeting of South American heads of state. And it is not only on trade matters that Brazil's independent policy has put it at odds with the United States. This past year, the Brazilian government opposed U.S. efforts to challenge Fujimori's rigging of the Peruvian elections. And having made plain its aversion

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to U.S. policy in Colombia, Brazil succeeded in excluding any mention of the U.S.-supported Plan Colombia from the final communiqué of the South American summit. As it negotiates toward hemispheric free trade, then, Washington cannot avoid taking account of its broader relationship with Brazil, a nation that can affect the success or failure of U.S. policy on a broad array of issues.

A QUAGMIRE IN THE ANDES?

NOTHING, however, is more likely to produce an open clash between the United States and Latin America than Washington's growing military assistance to Colombia. That assistance is part of Plan Colombia, Bogotá's multibillion-dollar, multiyear strategy to retake control of the country from left-wing guerrillas, right-wing vigilantes, and drug criminals. Every Latin American government recognizes the depth of Colombia's problems and its need for outside support. Yet U.S. aid, which will reach $1.6 billion over the next two years, has provoked wide opposition in the region.

The first concern is that U.S. funds, most of which are meant for the purchase of military hardware to battle drug traffickers, will escalate Colombia's wars and end hopes for a negotiated settlement with the country's guerrillas. This would be an unwelcome outcome, for negotiation remains the solution favored by every Latin American government, despite the continuing failure of peace talks. Colombia's neighbors also fear that a widening war will spill over the country's borders, spreading the violence and criminality that have plagued Colombia for so long.

Latin American countries also recall earlier U.S. interventions in the region, particularly in Central America in the 1980s, and worry about the impact of a U.S. military presence in South America—where the United States has never sent its soldiers. These countries lack confidence that Washington will be able to keep its intervention limited and avoid becoming more deeply engaged and reliant on military force, leading to a Vietnam-style quagmire.

Opposition to the U.S. role in Colombia also goes beyond Latin America. Many in the U.S. Congress, as well as a large number of American nongovernmental organizations (NGOs), have criticized U.S. military assistance to Bogotá—and the Bush administration is likely

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to face growing objections as U.S. involvement increases in the coming months. European governments have already made clear their distaste for the U.S. approach, and their financial contributions to Plan Colombia have fallen far short of what was anticipated—leaving Washington as the only major stakeholder (apart from Bogotá itself) in a substantially underfunded effort.

The critics of the plan make a number of compelling arguments that reflect more than mere knee-jerk anti-Americanism. Even a joint task force of the Inter-American Dialogue and the Council on Foreign Relations, chaired by two supporters of U.S. aid to Colombia—former National Security Adviser Brent Scowcroft and Senator Bob Graham (D-Fla.)—recently criticized Washington's Colombia policy as too narrowly focused on counternarcotics programs. It called for broader efforts to bolster government authority in Colombia and to underpin peace negotiations. The task force also argued that only with the firm backing of Latin American and European nations could U.S. policy hope to succeed.

Although President Bush has strongly endorsed U.S. assistance to Colombia in general, he has not said much about how he plans to confront the key policy questions, including whether to sustain (or even increase) the level of resources devoted to the program, whether to remain focused on antidrug efforts or move more toward a counterinsurgency strategy, and whether to continue emphasizing military assistance or initiate a more comprehensive aid program.

Whatever choices Bush makes, his most difficult challenges will be, first, to maintain the support of Congress and the American people for a large-scale, multiyear commitment (making Colombia the third largest recipient of U.S. security aid after Israel and Egypt) and, second, to secure the needed political and financial cooperation from Latin America and Europe. The United States cannot count on the support of other countries unless it starts consulting them far more systematically than it has done to date.

HURRICANE HUGO

VENEZUELA'S FIREBRAND president, Hugo Chávez, has further complicated the Colombia situation. The most vociferous opponent of Washington's assistance to Bogotá, Chávez has warned that U.S.

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actions could "generate a medium-intensity conflict in the whole of northern South America." Chávez has frequently and loudly disparaged the Colombian government as well and maintains regular communication with the guerrilla armies, which have been invited to speak before the Venezuelan Congress. So far, no evidence has emerged to implicate Chávez in providing material support to these guerrillas, but there have been credible allegations that he has aided opposition groups in Ecuador and Bolivia.

Ever since Chávez took office two years ago, U.S.-Venezuela relations have become increasingly strained. Chávez has already defied the United States on an array of issues and is fast becoming a leader of anti-American sentiment in the hemisphere. Venezuela has refused U.S. planes permission to fly over its territory for counternarcotics activities. Among OPEC members, it has most strongly resisted U.S. appeals to increase oil production to ease pressure on prices. In August, Chávez became the first head of state since the Persian Gulf War to disregard U.N. sanctions by visiting Saddam Hussein. And Chávez has consistently flaunted his friendship with Fidel Castro, recently agreeing to subsidize petroleum exports to Cuba. A direct clash with the United States may be brewing, particularly if the Venezuelan leader suffers political reversals at home and starts looking for scapegoats. Washington is already apprehensive about the lack of institutional checks on Chávez's power and the risks it poses for the future of democracy in the region.

Cuba, Haiti, Nicaragua, and a few other countries are also likely to present challenges to the new Bush administration—as they have to most previous U.S. governments. Several of these problems may be costly and difficult to resolve. Haiti, for example, could at any moment produce another massive flood of boat people headed to the United States. Bitter partisan squabbles in Washington, however, continue to impede the framing of a sustained and coherent policy toward the impoverished country.

Fortunately, developments in Haiti or in others of these small, troubled nations are unlikely to have much impact on the broader sweep of U.S.–Latin American relations, since the problems are relatively self-contained. Cuba, however, could be the exception, because its leadership is so unpredictable, because the United States

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often overreacts to Cuba's actions, and because Cuba has such a high international profile. Nearly every Latin American government has strong misgivings about U.S. policy toward Cuba, which they consider exaggerated, anachronistic, and at times reckless. Aside from Venezuela, however, Cuba has virtually no allies or supporters in the region. But while one can imagine scenarios in which the United States forcibly intervenes in Cuba and provokes an uproar in the rest of Latin America, none of these seems very likely today. Washington is clearly softening its policy toward Havana. Notwithstanding Bush's tough campaign rhetoric and the debt he owes Cuban Americans for their overwhelming electoral support, that trend is likely to continue. Past votes make it clear that a majority in Congress is now ready to lift most U.S. restrictions on Cuba.

THINGS GO BETTER WITH FOX

CRITICAL as all these issues are, the United States' most important relationship in Latin America is with Mexico. No other country in the world affects the lives of Americans as much, and no country is more intensely affected by U.S. policies. Against the backdrop of an often bitter history, U.S.-Mexican relations have taken a constructive turn in recent years. Economic ties have flourished, and Mexico is now the United States' second largest trading partner after Canada—outdistancing Japan, the United Kingdom, and Germany. In the past ten years, U.S. exports to Mexico have tripled to some $100 billion a year. Approximately 350,000 Mexicans head north each year, reshaping U.S. society in multiple ways. The Mexican economy, in turn, is highly dependent on U.S. markets. Mexico sends more than 80 percent of its exports northward, while capital flows from the United States, as well as remittances from Mexican workers, have fueled Mexico's stunning economic performance in the past several years. Tensions over trade and other economic issues have by no means been eliminated, but NAFTA now provides the institutional mechanisms for addressing trade disputes. Other institutional arrangements are also in place to manage troublesome issues such as migration, drug trafficking, environmental contamination, and water rights.

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There is every reason, therefore, to expect that U.S.-Mexican relations will get even better in the coming years. Mexico has become Latin America's star performer. Hitched to the flourishing U.S. economy, for two years now Mexico has enjoyed its highest rates of growth in two decades and has kept inflation well in check. Even more impressive has been Mexico's decisive break from its authoritarian past—marked by the election of an opposition leader as president for the first time in the nation's history. These two developments augur stronger and more productive U.S.-Mexico ties. Mexico's giant step toward democracy should make cooperation easier across the board and far more appealing to a U.S. public and a Congress that were leery in the past of their undemocratic neighbor. President Fox—a business leader and former governor from northern Mexico who ran the national Coca-Cola company and speaks fluent English—should be a compatible partner for Bush. Fox has already expressed a commitment to enhancing U.S.-Mexican ties in many areas and has offered a series of far-reaching proposals on trade, immigration, and drugs. For his part, Bush takes pride in his connections to Mexico. He and many of his advisers have made it clear that Mexico will be a foreign policy priority. During his campaign, Bush declared, "I have a vision for our two countries. The United States is destined to have a special relationship with Mexico, as clear and strong as we have had with Canada and Great Britain."

Of course, expectations may have been driven too high—and if progress stalls, bitterness and frustration could quickly replace the optimism on both sides of the border. Another concern is that impatient U.S. policymakers may find it difficult to deal with the resulting diffusion of power and increased uncertainty that democracy will bring to Mexico. Decision-making there will probably grow slower and less tidy. Fox will also have to face unaccustomed scrutiny from a divided Mexican Congress and an increasingly assertive press.

Conflicts in U.S.-Mexican relations are likely to arise over the traditionally contentious issues of illegal immigration, narcotics trafficking, and economic relations. Many of the economic conflicts swirl around NAFTA. Each side complains that the other is not faithfully implementing the treaty. But although it would surely be better for both countries if these differences could be resolved, they are not

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likely to cause any wider conflicts—or to put the trade relationship at risk. NAFTA has produced too many valuable benefits for either side to jeopardize it. Even an economic downturn in the United States, which would quickly translate into a Mexican slump, would not cause bitterness in Mexico. Mexicans of all economic strata support close economic ties with the United States.

On drugs and immigration, however, the two countries deeply distrust one another. From the Federal Bureau of Investigation and the Drug Enforcement Agency to local police, U.S. law enforcement authorities have little faith in Mexico's ability or willingness to reduce the flow of cocaine and other drugs into the United States. Along with many influential members of Congress, they believe Mexico is too corrupt and indifferent to be a trustworthy partner in the drug war—and this message is regularly (if not always intentionally) communicated to understandably resentful Mexican officials.

For their part, Mexicans believe that U.S. demand has created their drug problem, that the United States is lackadaisical in fighting drugs on its side of the border, and that U.S. politicians and government agencies are intent on shifting the blame and political costs to Mexico. The U.S. certification process, through which Washington passes judgment each year on the antidrug efforts of other countries, is especially humiliating to Mexicans. Fox has made it clear that the United States and Mexico will never enjoy productive cooperation on drugs until the unilateral certification process is replaced by a more equitable and multilateral formula. Bush has not publicly commented on certification yet, but he will have to do so soon, before the White House offers its judgments.

Immigration poses an even more difficult problem. On drugs, the United States and Mexico can at least claim compatible objectives. Both governments ostensibly want to reduce the drug flow and the crime associated with it. But on immigration issues, Mexico and the United States have very different perspectives. Mexico wants the relatively free movement of people across the border, parallel to the free movement of capital and goods enshrined in NAFTA. The United States seeks to selectively restrict entry by maintaining a closed and monitored border. The discord has been somewhat muted over the past several years because a prospering U.S. economy has

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created an enormous demand for low-wage labor, and Americans—with an all-time low unemployment rate—have been less troubled than usual by the influx of Mexican workers. A prolonged dip in the U.S. economy and rising joblessness, however, will revive political pressure to slow migration. Tensions with Mexico will again emerge.

Still, so far the signs are encouraging. Soon after his election last July, President Fox proposed that Washington join him in exploring the eventual establishment of an open border between the two countries. Although it gained enormous media coverage, the suggestion fell on deaf ears among U.S. officials and has not been resuscitated. Unfortunately, it may have also overshadowed Fox's most important statement—his offer to work with the United States to monitor and regularize the flow of migrants. This is an offer that no other president of Mexico has ever made. And it provides, for the first time ever, a strong basis on which to build cooperative migration policies that are acceptable to both countries.

FIRST THINGS FIRST

BY THE TIME he travels to Québec in April, President Bush will have discovered that, with the prominent exception of Mexico, U.S. ties to Latin America have become increasingly tense. His administration confronts some very difficult policy choices at a time when many Latin Americans are losing confidence in U.S. leadership and questioning the reliability of Washington as a partner.

With many countries facing hard economic times and with democracy eroding in some places, Latin Americans are also losing faith in their own leaders and institutions. Of course, these are problems that Latin American nations have to resolve themselves. If they cannot, they will never make very attractive partners for their powerful neighbor to the north.

Indeed, there is not much that the Bush administration can do to prevent the souring of Latin America's economic and political climate. The White House can, however, show that it stands ready to establish enduring partnerships with Latin American nations that are ready to do the same. President Bush must promptly move ahead on hemispheric trade matters, therefore, by taking quick steps—ideally before the

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summit in Québec—to gain Congress' approval of fast-track negotiating authority. Early and significant attention to Colombia would also be helpful. Latin American governments would welcome a signal from the Bush administration that it plans to thoroughly review the current U.S. aid package and, in the process, consult extensively with other countries in the region and beyond. The Bush administration, in addition, has a historic opportunity to break new ground in U.S.-Mexican relations by seriously engaging the issues that President Fox has already put forth. Washington may have misgivings about Fox's specific proposals, but the Mexican president has clearly identified the right subjects for debate and discussion. By seizing these opportunities, President Bush can make up for the lost momentum in U.S.–Latin American relations, begin to alleviate some of Latin America's concerns, and blunt the region's growing criticism of the United States.

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Time to Leave Korea?

Selig S. Harrison

BARGAINING CHIP

LAST SPRING, North Korean leader Kim Jong Il surprised the world by agreeing to meet with South Korean President Kim Dae Jung in the first North-South summit held since the division of the Korean Peninsula in 1945. Their historic encounter in the North Korean capital of Pyongyang in June 2000 has initiated a thaw in relations that could lead, in time, to a confederation of the two Koreas and eventual reunification. How far and how fast the détente progresses, however, will depend in large part on whether the United States is prepared to modify its role on the peninsula, especially the size and character of its military presence there.

The conventional explanation for the North's sudden reversal is that Pyongyang was desperate for economic assistance from Seoul. North Korea does indeed want South Korean economic help, but this fact alone cannot explain the North's new turn outward. To understand the timing of the summit, and to assess whether the détente will endure, it is necessary to examine the relations not only between Pyongyang and Seoul but also between Pyongyang and Washington.

Kim Jong Il's central objective is the normalization of economic and political relations with the United States, accompanied by a peace settlement formally ending the Korean War. He needs normalization to unlock aid not only from the United States but also from Japan, western Europe, and the World Bank. Equally important, a peace settlement with

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Washington is needed to defuse the military standoff at the 38th parallel, where a conflict could explode at any time, bringing détente to a halt.

North Korea has been pursuing normalization in vain since 1994, when it agreed to freeze its production of plutonium for nuclear weapons. (The agreement did not address North Korea's missile program.) Pyongyang agreed to the freeze primarily because Washington pledged in return to phase out economic sanctions against the North that had been in place since the Korean War. But President Bill Clinton, faced with congressional opposition, failed to deliver on his part of the bargain. In late 1998, while continuing to honor the 1994 accord, Kim Jong Il staged a long-range missile test to force new negotiations. In response, Clinton sent former Secretary of Defense William Perry to Pyongyang to seek a broader settlement embracing both nuclear- and missile-related issues.

The resulting agreement on September 17, 1999, provided for the relaxation of "most" U.S. sanctions in exchange for a temporary North Korean moratorium on missile testing. North Korea honored this moratorium, but once again the White House, still under pressure from Congress, failed to ease the sanctions, many of which can be abolished by executive order. Instead, the United States upped the ante, demanding a comprehensive missile agreement that would go beyond a testing moratorium to a complete ban on the development, production, and deployment of all missiles with a range over 180 miles (i.e., not only long- and medium-range missiles but also some short-range ones).

It was only after U.S.–North Korean normalization negotiations ended in a deadlock on March 18, 2000, that Kim Jong Il accepted Kim Dae Jung's long-pending summit proposal. Faced with what he considered unacceptable U.S. terms, the North Korean leader used summitry with the South both to increase his bargaining leverage with Washington and to jump-start economic interchange with Seoul. As he had hoped, the summit broke the deadlock, giving Clinton the political cover he needed to begin carrying out his pledge to reduce sanctions. This in turn made it politically possible for Kim Jong Il to neutralize North Korean hard-liners skeptical about normalization and to send his deputy, Vice Marshal Jo Myong Rok, to Washington in October 2000, setting the stage for U.S. Secretary of State Madeleine Albright's visit to Pyongyang soon thereafter.

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The initial results of the June 2000 summit have been encouraging. Economic links across the 38th parallel are growing. Cooperative measures to rebuild a North-South railroad link are proceeding on schedule. Each side says it will no longer seek to conquer or absorb the other, and both are formally committed to the goal of a loose confederation that would lay the groundwork for eventual reunification. Still, a long tug of war over the terms of coexistence lies ahead.

WINDING DOWN

THE MOST intractable issue blocking a stable rapprochement is how to wind down the military tensions at the 38th parallel. This issue involves the United States directly because its 37,000 military personnel and 100 late-model combat aircraft stationed in Korea, together with its "nuclear umbrella" over the South, tilt the North-South military balance in favor of Seoul. Pyongyang argues that to achieve an equilibrium at a lower level of military deployment, it would not be enough for the North and the South to negotiate the reduction, redeployment, and restructuring of their own armed forces. The United States would also have to make major changes in the nature and role of its forces in Korea.

Although the United States says its forces in Korea are meant to deter another invasion by the North, Pyongyang sees them as a genuine security threat, particularly because the technological superiority of U.S. and South Korean aircraft leaves North Korea vulnerable to a preemptive strike. On his return from Pyongyang in September 1999, Perry was asked why North Korea is seeking to develop long-range ballistic missiles. "I believe their primary reason ... is deterrence," he replied. "Whom would they be deterring? They would be deterring the United States. We do not think of ourselves as a threat to North Korea, but I truly believe that they consider us a threat to them."

President Clinton called off his projected trip to North Korea in January largely because he could not pin down a missile agreement in advance. In negotiations during and after Albright's visit, Pyongyang offered to discuss the terms for freezing the development of its long-range Taepodong missile, which would be able to reach the United States if some major technical problems were

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resolved.[1] But it balked at the U.S. demand that it end the production and deployment of its existing medium-range Nodong missile, which already can reach Japan and U.S. bases there. North Korea is seriously concerned that Japan might develop nuclear weapons and wants to retain the Nodong both to maximize its leverage in dealing with Tokyo and to deter any future U.S. military involvement in Korea. In contrast to the Nodong, the Taepodong is an expendable bargaining chip, since making it operational would require money and foreign help that Pyongyang does not have.

North Korea has offered to discuss the pullback of its forward-deployed conventional forces at the 38th parallel and the complete dismantling of its missile and nuclear capabilities—but only if the United States agrees to a peace treaty ending the Korean War, followed by wide-ranging arms control negotiations in which the redeployment of U.S. and South Korean forces and possible U.S. withdrawals would also be considered. If the United States were willing to reconsider the nature and role of its forces in Korea, the North might well accept a continuing U.S. ground presence for a transitional period of a decade or more.

So far, however, the United States has refused to entertain such proposals for change. Pentagon officials contend that U.S. forces are needed in Korea more than ever, not only to counter the threat of North Korean aggression but also to help stabilize Northeast Asia.

But the North is no longer likely to attempt a forcible reunification, as it did in 1950. Its former allies Russia and China oppose such an adventure and are now playing the role of honest brokers between the North and the South. Moreover, the North's economic difficulties have severely eroded its military readiness and its ability to sustain a protracted war. Pyongyang's forward deployments of tanks and artillery are intended to help deter a U.S. preemptive strike, not to prepare for another invasion.

As for the rationale that U.S. forces help "stabilize" Northeast Asia, the Pentagon's plans to use Korea as a base for military operations

[1] The CIA estimates that the Taepodong I tested in 1998, if successfully developed, could deliver to Alaska or Hawaii a "light payload" of 20 or 30 kilograms—suitable for chemical or biological weapons, but not for a nuclear warhead, which would weigh at least 1,000 kilograms. A later model believed to be on the drawing board could carry a bigger payload, up to several hundred kilograms, to the continental United States.

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AP/WIDE WORLD PHOTOS

The Kim and I: Madeleine Albright with Kim Jong Il, Pyongyang, North Korea, October 24, 2000

elsewhere in Asia could well aggravate regional tensions. Beijing has already warned that it would oppose the presence of U.S. forces in Korea after reunification, expressing particular concern that they might be used to conduct operations in Taiwan.

In part, Washington's resistance to a security dialogue with Pyongyang is rooted in the deep distrust that many Americans feel toward the totalitarian North Korean regime. But vested interests are also a factor. Defense contractors and political leaders pushing a U.S. missile defense system frequently exaggerate present and potential North Korean missile capabilities. The North Korean threat is the principal justification for the size of the U.S. military presence in the Pacific, and if this threat seemed to be fading, it would be difficult to sustain political support for such a costly presence ($42 billion per year) in the name of a vaguely defined regional "stabilizing" mission.

In South Korea, as in the United States, opposition to compromise is driven by a politically powerful military-industrial complex, which

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includes 83 defense contractors producing 119 types of defense equipment in 130 factories, many of them closely tied to U.S. defense firms. Kim Dae Jung is also constrained by his people's lingering memories of North Korean aggression in the Korean War. Suspicions of the North's intentions are relentlessly manipulated by Kim's powerful political opponents, who belittle him for not extracting what they consider adequate concessions from Pyongyang in return for South Korean largesse. As South Korea's economic difficulties have worsened in recent months, Kim Dae Jung's popularity has plummeted, and his North Korea policy is increasingly under attack.

American policy is based on the assumption that North Korea's economic difficulties will eventually force it to make unilateral military concessions. In return for economic help and the normalization of diplomatic relations, Washington wants Pyongyang not only to give up the option of developing both medium- and long-range missiles but also to accept more intrusive inspections of its nuclear program that go beyond those envisaged in the 1994 nuclear freeze agreement. But the United States, for its part, has not yet fulfilled its own pledge in Article Three, Section One, of that agreement to give "formal U.S. assurances [to North Korea] against the threat or use of nuclear weapons by the United States."

The assumption that economic incentives alone will get North Korea to make one-sided security concessions ignores two factors: the depth of Pyongyang's U.S.-focused security concerns and its limited but significant economic progress since the famine of 1995–96. Although North Koreans are still living hand to mouth, famine conditions now exist only in scattered areas, thanks primarily to American and Chinese food aid. China is also providing enough coal to keep key factories and power plants operating.

REFORM BY STEALTH

CONVENTIONAL WISDOM says that Kim Jong Il must pay whatever military price is necessary to get foreign economic help, or else his regime will collapse. According to the prevailing American assessment, his Marxist-Leninist ideology precludes the economic reforms necessary for survival, and in any case, he dares not risk

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reforms because popular discontent would erupt once the winds of change blew in from the outside. But increasingly, Kim is cautiously breaking loose from his ideological shackles, pursuing a carefully calibrated policy that might be described as reform by stealth.

During the famine, for example, the government's food procurement and distribution machinery broke down, and private farm markets mushroomed in the North Korean countryside. Instead of closing them down by force, Kim chose to look the other way. In doing so, he sided with reform-minded officials who argued that private markets not only would ease the food shortage but would stimulate a broader movement toward an unofficial market economy. Since then, foreign food-aid administrators have reported direct evidence of more than 300 private markets dealing in consumer goods as well as farm produce. The new markets, they say, have coaxed food into circulation that farmers would otherwise have held back from government procurement officers. To avoid provoking orthodox ideologues, Kim has quietly promoted this significant change in North Korean economic life without formally acknowledging or legitimizing it.

The fact that Kim has permitted more than 150 foreign food-aid administrators to live in Pyongyang and monitor distribution in 163 of the country's 210 counties is dramatic evidence that he does not share the xenophobic, insular attitudes of the old guard in the Workers Party. When foreign advisers have suggested innovations in agricultural policy, he has signaled quick acceptance, overriding bureaucratic opposition.

During Albright's visit to Pyongyang, Kim Jong Il told her that he has been studying alternative economic systems for North Korea, referring specifically to "the Swedish model." But how rapidly he can move in the direction of reform is uncertain, given the resistance from the old guard and his own desire to maintain political control. Before making basic changes in the domestic economic structure, he is likely to continue to try to achieve reform indirectly, as China did, by opening up the system to foreign aid, trade, and investment ties, especially with South Korea. Far from fearing the winds of change from outside, he is confident that he can harness them to serve his purposes.

At some point, economic help from Washington, Tokyo, and international financial institutions will be necessary for sustained economic progress in North Korea. The loss of its Cold War–era

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Soviet and Chinese subsidies has left an eroding infrastructure that can be revitalized only with large-scale foreign capital and technology.

Looking ahead to expanded foreign business ties and membership in international financial institutions, therefore, Kim Jong Il has assigned North Korean officials to study international law and the workings of capitalism in training programs arranged by the World Bank and the United Nations Development Program. North Korea has also formally requested membership in the Asian Development Bank (ADB)—a bid that has been supported by South Korea but blackballed by the United States and Japan. At the time, the United States said that "the North Korean regime is fundamentally incompatible with the principles of institutions such as the ADB" and pointed to the fact that the country is still on the State Department's list of states sponsoring terrorism.

SURVIVOR

MANY OBSERVERS believe that even with foreign economic aid, North Korea may soon collapse. The CIA's director, George Tenet, warns of "sudden, radical, and possibly dangerous change" that could come "at any time." General Thomas A. Schwartz, commander of U.S. forces in Korea, predicts "social chaos threatening the existence of the regime itself," leading to "the devastation of civil war." Dismissing this view, Eason Jordan, president of CNN International Networks, who has visited the North nine times, told a Harvard audience, "When you hear about starvation in North Korea, a lot of very level-headed people think, 'there is no way that a country like that can survive.' ... Well, I'm here to tell you with absolute certainty those guys will tough it out for centuries just the way they are."

Well, maybe not for centuries—and certainly not just the way they are. For the next several decades, however, as the North and South move closer together, the possibility of a collapse appears increasingly improbable. The North Korean state is likely to survive—even if its communist system or Kim Jong Il do not.

Unlike his father, Kim Il Sung, Kim Jong Il is not a charismatic leader with absolute personal authority. To contain ideologues in the Workers Party who oppose his reform ideas, he has forged an alliance

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with key military leaders, who have long chafed at party domination and saw an opportunity after the death of the "Great Leader" to strengthen their position in the Pyongyang power structure. For all practical purposes, North Korea has had a bloodless military coup: Kim Jong Il has collaborated with the armed forces to create a new constitutional structure in which the military supplants the Workers Party as the focus of political authority and provides his personal power base. For the present, the armed forces need Kim Jong Il as a legitimizing symbol of continuity with the era of his revered father. But even if he eventually outlives his usefulness, they will continue to provide the power base for his successor.

Kim Jong Il appears to be well protected against a major coup. He has installed brothers of his sister's husband, Chang Song Taek, in three of the most sensitive positions in the power structure. The eldest brother, General Chang Sung Woo, commands one of the army corps in control of Pyongyang; the second eldest, General Chang Sung Kil, is political commissar of another corps in the capital; and the youngest, General Chang Song U, is director of the Political Department in the Ministry of Public Security. The only known case of an attempted uprising against the regime was a localized revolt in 1995 by elements of the Sixth Corps in the remote North Hamgyong province, the area most seriously affected by the famine.

Kim has rewarded his loyal military supporters by giving them profitable positions in his personal network of conglomerates and trading companies. Powerful generals now control the Mabong, Rungra 888, and Kunsung trading firms, which handle most of North Korea's illicit opium trade as well as commercial exports of zinc, anthracite, gold, and other mineral resources. If the danger of a collapse exists, it lies in the possibility of conflicts within the armed forces over the spoils of power, leading to destructive factionalism. Scenarios of a popular revolt generated by economic privation are much less plausible.

This is true partly because Kim presides over a ruthless totalitarian system and is modulating his economic reforms carefully to minimize their political impact. Even when outside influences begin to creep in, however, the North Korean political fabric is likely to prove resilient for deeply rooted historical reasons. One often-cited factor is the powerful Confucian tradition of political centralization and

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obedience to authority, which dates back more than six centuries in Korea and was skillfully appropriated by Kim Il Sung. But North Koreans are more than obedient: six years after the death of the "Great Leader," most of them are still fervent supporters of a nationalist ideology often called "Kim Il Sungism." The Kim Il Sung mystique grew initially out of his role as a guerrilla leader fighting Japanese colonial rule, but its durability lies primarily in vivid historical memories of shared sacrifices under his leadership during the Korean War.

SOUTHERN HOSPITALITY

THE COLLAPSE of North Korea would send millions of refugees across the 38th parallel and necessitate expensive reconstruction there, further burdening the South's already-troubled economy. The underlying purpose of Kim Dae Jung's "sunshine policy" toward North Korea is to forestall such an outcome by helping Pyongyang mitigate its economic problems through cooperation with the South. Over time, Kim Dae Jung argues, North-South economic links will soften political and military antagonisms and accelerate economic reform in the North. Even his critics agree that the lesson of the German reunification experience is that a sudden absorption would be much more costly for the South than a gradual, structured process of confederation that would facilitate the economic rehabilitation of the North before reunification.

Even before the June 2000 summit, business ties between the North and the South had been rapidly multiplying through subcontracting arrangements under the "sunshine policy." Average wages in the South are ten times higher than those in the North. For many South Korean companies still recovering from the fiscal crisis of 1997, especially small enterprises, subcontracting offers a safe and easy way to make quick profits in the North without the risks of equity investment. Today, more than 200 South Korean companies have subcontracting links with North Korean manufacturers. The South Korean partners provide raw materials and specialized equipment and pay for the finished products in dollars. The North Korean factories turn out consumer goods such as apparel, golf bags, and TV sets, mostly for the South Korean market and partly for export to Europe, China, and Russia.

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South Korean entrepreneurs like these arrangements because they preclude the managerial headaches that would come with direct investment. It is the North Korean factory managers who have to worry about power shortages, haphazard transportation, and the low productivity of their workers. The North Korean government likes subcontracting because it provides jobs and foreign exchange without a politically sensitive influx of South Korean managers.

At the same time, Kim Jong Il is seeking selected equity investments, such as the one recently authorized at Nampo in which Italian carmaker Fiat and a South Korean partner plan to make 10,000 cars a year by 2003 for the Chinese market. He has also started to negotiate investment guarantees and double-taxation agreements with Seoul in hopes of attracting big investments in infrastructure. Emulating China, he is setting up special investment zones where investors would get preferential tax treatment and easy access to energy sources and transportation. Hyundai has agreed to develop one of these zones at Kaesong, and others are planned for Nampo and Wonsan. Barring conflicts between Seoul and Pyongyang over the ground rules for these zones, they could lead to a massive influx of South Korean investment within the next decade.

The potential success of North-South economic cooperation will depend to a great extent on whether the United States and Japan normalize relations with the North and encourage international financial institutions to support its reconstruction. South Korea alone does not have the resources necessary for the large-scale infrastructural investments needed by the North, especially those required to overcome a serious energy shortage. One of the cooperative projects most important to Seoul—costly natural gas pipelines originating in Siberia and crossing through the North to the South—would require multilateral aid, as well as support from U.S. and Japanese oil companies operating in Russia. These companies keep a close eye on U.S. policy and thus regard North Korea as verboten territory.

The pace and magnitude of North-South economic cooperation will also be governed by whether military tensions are relaxed at the 38th parallel, since many potential South Korean investors are not fully convinced that a military danger no longer exists.

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LET'S MAKE A DEAL

NEARLY HALF A CENTURY after the 1953 cease-fire, the Korean War has not formally ended. The 1953 Armistice has yet to be replaced with a peace settlement because Washington, Pyongyang, and Seoul are bogged down in a procedural impasse that masks more fundamental issues. This stalemate must be resolved in order to move toward the normalization of U.S.–North Korean relations, defuse military tensions at the 38th parallel, and negotiate a comprehensive missile agreement.

The signatories to the 1953 Armistice were North Korean and Chinese generals and U.S. General Mark W. Clark, representing the United Nations Command, which provided the multilateral umbrella for U.S. intervention. Syngman Rhee, then president of South Korea, had wanted to continue fighting, and thus the South refused to sign.

What North Korea wants today is a bilateral peace treaty with the United States to replace the 1953 truce. Under the terms of the U.S.–South Korean alliance, the American commander of the U.S.–South Korean Combined Forces Command has operational control over South Korean forces during wartime. In Pyongyang's eyes, this makes Washington its main adversary and thus a necessary signatory to a peace treaty.

The United States and South Korea, however, want a treaty between the two Koreas—an untenable position, since the South not only refused to sign the original armistice but actively tried to thwart it. Washington and Seoul now argue that the South should be treated as a legal party to the armistice—and thus eligible to sign a treaty replacing it—because South Korea was one of the 16 countries that fought under the U.N. Command. But since the other 15 countries that fought under the U.N. Command are not envisaged as signatories to a potential peace treaty, this argument collapses immediately.

An equally flimsy argument for treating South Korea as a signatory is that Rhee did eventually agree not to disrupt the armistice. But he gave this promise to President Dwight Eisenhower, not North Korea—and only in return for a U.S.–South Korea mutual security treaty and a cornucopia of economic and military aid that has since totaled some $22 billion. (In response, Pyongyang signed a mutual se-

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curity treaty with China, which is still in force, and one with Russia, which has now been phased out.)

As for the United States, Washington contends that it was not a party to the 1953 agreement because Clark, although a U.S. general, signed on behalf of the U.N. Command, not the United States. But since its inception, the U.N. Command has been multilateral only in name. In his memoirs, former U.N. Secretary-General Trygvie Lie bitterly criticized the United States for blocking his efforts to establish U.N. oversight over the command's operations. For more than two decades, the command has had no military functions and has been little more than a fig leaf for what is now a unilateral U.S. commitment to the South.

A temporary peace agreement could break the procedural impasse over how to formally end the Korean War.

The insistence of the United States that it was not a party to the armistice is governed by political, not legal, considerations. At bottom, it reflects the Pentagon's fear that the normalization of U.S.–North Korean relations could threaten the future of the U.S. military presence in Korea. When and if Washington is ready to normalize relations with Pyongyang, the fact that Clark signed as U.N. commander need not be an insuperable legal obstacle. Patrick Norton, former legal counsel to the State Department's Bureau of East Asian and Pacific Affairs, has argued persuasively that a direct U.S. role in the peace treaty would "clearly be appropriate" in light of its "direct command role in the fighting itself, and in light of its intimate political and military involvement in the maintenance of the armistice."

To expedite a settlement, North Korea has proposed a stopgap "peace agreement" with the United States that would open the way for the normalization of relations and negotiations on the reduction of military tensions without waiting for the conclusion of a formal peace treaty. In a statement on June 16, 1998, Pyongyang offered to discuss "the discontinuation of our missile development after a peace agreement is signed with the United States and the U.S. military threat completely removed." North Korean diplomats emphasized that the use of the word "agreement" in place of "treaty" was no accident.

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A stopgap peace agreement makes sense as a way to break the procedural impasse over how to end the Korean War. Looking ahead, a workable legal formula to replace the 1953 truce would consist of two treaties: one between Washington and Pyongyang and another between Washington and Beijing. For political and military rather than legal reasons, these treaties should be accompanied by a parallel North-South peace accord unrelated to the armistice. For example, Pyongyang and Seoul could convert the non-aggression clause of their 1991 "Basic Agreement" into an explicit declaration that the Korean War is over.

Like the use of the phrase "peace agreement" in its June 1998 statement, North Korea's reference to the U.S. "military threat" rather than the U.S. "military presence" was an important signal that Washington has ignored so far. North Korea has indicated that it is not opposed to the American military presence in Korea as such, but to its continuation in the context of hostile U.S.–North Korean relations. Pyongyang wants Washington to play the role of honest broker between the North and the South, as Moscow and Beijing do now, and to adjust its military mission accordingly.

As early as 1995, North Korean First Deputy Foreign Minister Kang Sok Ju and leading generals had proposed a peace plan in which the role of U.S. forces in Korea would no longer be limited to defending the South. Instead, the United States would help stabilize North-South relations by joining a new trilateral "Mutual Security Commission" consisting of North Korean, South Korean, and U.S. generals. The current U.S.–South Korea and China–North Korea mutual security treaties would remain in force. The new commission, Kang said shortly before the June 1998 statement, "would help to prevent any threat to the peace, whether from the South against the North or the North against the South"—a theme that has since been repeated in numerous North Korean declarations.

The Mutual Security Commission would phase out the U.N. Command and the Military Armistice Commission created in 1953, both of which are regarded as symbols of an adversarial relationship. The new commission would continue to monitor the peace at the 38th parallel, as the Armistice Commission now does. What would change is that the United States would be directly represented in the Mutual Security Commission, not through a

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U.N. Command that now exists only on paper. The commission would also provide a new forum for negotiating tension reduction and arms control measures.

In rejecting North Korean proposals for ending the Korean War, the United States and South Korea insist that the armistice machinery cannot be dismantled until the North first proves its good faith by agreeing to tension reduction and arms control measures, such as pulling back some or all of its forward-deployed forces and artillery. Pyongyang responds that this would be putting the cart before the horse and that military antagonists cannot be expected to lower their defenses while hostilities continue.

AN HONEST BROKER

Kim Dae Jung and Kim Jong Il find themselves trapped in an increasingly constricting cycle of mutual dependence. Each faces domestic opposition that prevents him from making concessions to the other, and each wants the other to make the first move on difficult issues. Only the United States can break the cycle. By shifting to the role of honest broker, Washington could help accelerate the pace of post-summit progress and strengthen the moderates in both capitals.

Such a shift would require the United States to accept the reality that North Korea is not on the verge of collapse and to abandon its insistence on a missile deal as a precondition for normalization. Kim Dae Jung achieved his breakthrough with Pyongyang precisely because he did not put difficult military issues first. Similarly, the Bush administration could improve the prospects for successful negotiations on conventional force deployments, nuclear weapons, and missiles by giving priority to ending the Korean War and normalizing relations.

A recent significant breakthrough in normalization negotiations was the joint declaration made by Vice Marshal Jo and Secretary Albright last October 12 that neither government would "have hostile intent toward the other." Having dipped its toes into the water, Washington should now take the plunge by concluding peace treaties with Pyongyang and Beijing, or at least the stopgap peace agreement proposed by the North in 1998. The replacement of the armistice machinery with the proposed Mutual Security Commission could

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then follow, opening the way for trilateral negotiations on conventional arms control and a parallel dialogue between Pyongyang and Washington on issues related to missiles and nuclear weapons.

As an honest broker, the United States would have to adopt a balanced posture between the North and the South in the trilateral commission and be prepared to make tradeoffs involving U.S. forces. For example, to get North Korea to withdraw its forward-deployed tanks and artillery, the United States might have to withdraw its Apache attack helicopters and some or all of its combat aircraft deployed in Korea, which Pyongyang finds more threatening than U.S. ground forces. South Korea's air force, with its 520 advanced fighter aircraft, including 162 U.S.-supplied F-16s and 240 F-5s and F-15s, would still have a significant edge over Pyongyang's larger but antiquated MiG force, much of which is in disrepair and often grounded due to fuel shortages.

U.S. forces in Korea could stimulate anti-American feelings and make Korea a vortex of regional conflict.

To get North Korea to end or curtail its missile development, the United States would have to combine military concessions, such as the possible withdrawal of combat aircraft, with economic incentives. In addition to further relaxing sanctions and continuing to provide large-scale food aid, it should give top priority to negotiating the removal of North Korea from the State Department's terrorist list so that World Bank and ADB aid can get underway. Similarly, to convince North Korea to phase out the deployment of existing Nodong missiles, Japan would have to offer a large financial aid package as part of its own normalization agreement with North Korea.

To induce North Korea both to dismantle its nuclear facilities as part of the 1994 freeze agreement and to accept tightened nuclear inspections that would go beyond the terms of the agreement, the United States would have to fulfill its own commitments under the accord. First, the U.S.-sponsored Korean Peninsula Energy Development Organization would have to complete two promised civilian nuclear reactors that are now years behind schedule. More important, the United States would have to honor Article Three, Section One, of the agreement by formally assuring North Korea against the threat

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or use of nuclear weapons. For such a pledge to be consistent with its security commitment to South Korea, the United States would have to obtain a six-power agreement committing China, Russia, Japan, and the two Koreas to not manufacture, use, or deploy nuclear weapons on the peninsula.

Looking ahead, as arms control negotiations proceed, North-South tensions decline, and the movement toward confederation gains momentum, the United States should accompany its denuclearization initiatives with a broader effort to progress from arms control to the complete neutralization of Korea as an arena of conventional military conflict. Washington should offer to withdraw its remaining forces from Korea if Beijing, Moscow, and Tokyo will join in a formal pledge to not introduce military forces into the peninsula in the future. The United States and China would then simultaneously terminate their mutual security treaties with Seoul and Pyongyang.

In the absence of such an initiative, the United States is likely to find itself on a collision course with both China and an increasingly nationalistic Korea. Beijing is tolerant of U.S. forces in a divided Korea, but a post-reunification U.S. presence on its borders would be a red flag. Korea would be a continual focus of tensions not only between China and the United States but also between China and Japan. In Chinese eyes, if there is no longer a North Korean threat, the only plausible U.S. rationale for a continued presence there would be the containment of China through the closer integration of U.S. military operations in Korea and Japan. Indeed, many U.S. strategic thinkers have openly advocated a post-reunification alliance between the United States, Korea, and Japan. China and Japan have clashed over Korea throughout history, and such an alliance would rekindle old animosities.

Even now, in the new atmosphere generated by the June 2000 summit, more and more South Koreans are calling for a greatly reduced U.S. presence. Far from stabilizing Northeast Asia and serving U.S. interests, the indefinite continuation of the American presence in its current form is more likely to stimulate anti-American feelings and make Korea, once again, the vortex of regional conflict that it was a century ago.

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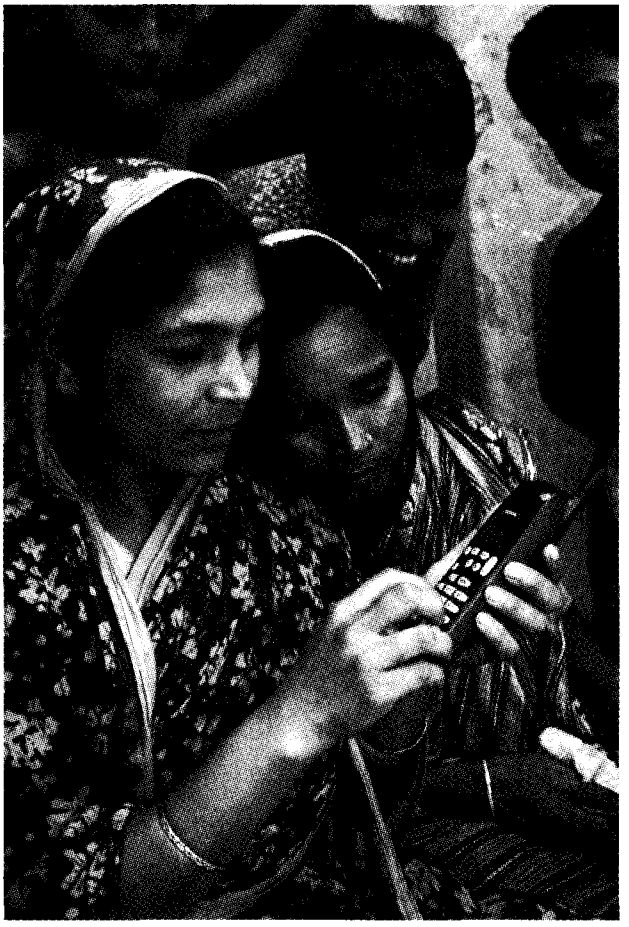
The Age of Technology



AP/WIDE WORLD PHOTOS

Villagers with cell phone, Bangladesh, 1997

The imaginative use of emerging technologies and creative public-private partnerships can accelerate development in even the poorest regions.

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The Great Disruption

Clayton Christensen, Thomas Craig, and Stuart Hart

REVERSAL OF FORTUNE

THE BOOMING Japanese economy from the 1960s through the mid-1980s was one of the most thoroughly studied and admired phenomena of modern times. From steel to automobiles, consumer electronics to watches, Japanese companies easily overran the fortifications of their American and European competitors. Western scholars praised Tokyo's careful economic planning and the focus of Japan's *keiretsu*—massive, interlocked networks of companies such as Mitsui, Mitsubishi, Matsushita, and Sumitomo—on building long-term competitive advantages. Other analysts attributed Japan's economic momentum to its workers' selfless dedication to improving productivity and to the extraordinarily high savings rates of its consumers. Scholars cited the absence of similar factors in Europe and North America, meanwhile, to explain the stagnation afflicting those countries. In the United Kingdom, for example, the huge share of GNP taken up by government spending was seen as crippling economic growth because it crowded out private investment capital.

The fortunes of these economies, of course, have now reversed. America has experienced the longest unbroken economic expansion in its history, and the United Kingdom has achieved levels of prosperity that few could have imagined 30 years ago. Japan, in contrast, has

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been mired for a decade in stagnation that appears to have no end. What happened? The answer lies primarily at the managerial and microeconomic levels and in particular with a phenomenon best termed "disruptive technology."

Disruptive technologies create major new growth in the industries they penetrate—even when they cause traditionally entrenched firms to fail—by allowing less-skilled and less-affluent people to do things previously done only by expensive specialists in centralized, inconvenient locations. In effect, they offer consumers products and services that are cheaper, better, and more convenient than ever before. Disruption, a core microeconomic driver of macroeconomic growth, has played a fundamental role as the American economy has become more efficient and productive. Once the microeconomic roots of disruptive technology are understood, policymakers can learn how to transform relatively stagnant economies such as Japan's, Germany's, and India's. Understanding disruptive technology can also help forecast the dangers lurking for strong economies such as South Korea's.

TOO MUCH OF A GOOD THING

JAPAN'S macroeconomic puzzle has a microeconomic parallel. Why did so many companies that were once considered the best run in the world stumble so quickly? Many of these leading companies faltered not because they were ineptly managed but precisely because they were well managed. In fact, their leaders followed some of management's most sacred rules, such as staying close to their customers and focusing investments on the most profitable new products and services. But their innovations fell victim to disruptive technologies.

Every market features two types of "performance trajectory"—the rate at which the performance of a product or service improves over time. One trajectory measures the ability of customers to utilize the product improvements introduced by manufacturers. For example, even though carmakers keep developing new and better car engines every year, most drivers cannot take advantage of this improved performance because of outside constraints such as speed limits.

The second trajectory measures the actual pace of technological innovation. This pace of technological improvement almost always

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outstrips customers' abilities to utilize the improvements—so that companies with products and services centered on what customers need now nevertheless almost always overshoot what those same customers will be able to use tomorrow. A good illustration is Microsoft's popular Excel spreadsheet software. Microsoft can innovate at a much faster pace than its customers' needs, so most users are not even aware of 90 percent of this program's features. Well-managed producers overshoot the improvement rate that customers in any given tier of the market can absorb because they can improve their profit margins by selling more-sophisticated products to the most demanding customers. Companies that do not overshoot but instead keep their technology aimed at lower tiers of the market often find that competition drives profit margins sharply down. Hence good managers try to keep their profit margins healthy by moving their product lines out of the sluggish tiers of the market into those tiers where profitability is greater.

The tendency of good managers to overshoot, however, can allow disruptive technologies—cheaper, simpler, and more convenient products or services—to enter the tiers of the market where customers are already overserved by the existing (but more expensive) offerings. The leading companies in such industries are so focused on sustaining innovations and addressing the more sophisticated and profitable customers that they ignore the disruptive innovations piercing into the market from the low end. In this way, disruptive technologies have plunged many of history's best companies into crisis and, ultimately, failure.

There are four reasons why good managers become paralyzed when faced with disruptions. First, leading companies listen to their customers. Because disruptive technologies perform significantly worse than mainstream products in the beginning, the leading companies' most attractive customers typically will not use them. The more carefully companies listen to their best customers, therefore, the less they will recognize that the disruption is important. Second, such companies carefully measure the size of markets and their growth rates to understand their customers better. But disruptive technologies foster new products and services with a market impact that cannot be easily predicted. Third, good managers focus on investing where returns are the highest. Disruptive innovations, however, usually translate

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CORBIS - BETTMANN

Born to be disrupted: ENIAC, the first general-purpose electronic computer, 1946

into cheaper products with lower profit margins. (It never made sense for IBM to market software in the 1970s—because the profits from making hardware were so much greater.) Finally, leading companies almost always pursue large markets. As companies become successful and grow, their managers are compelled to rake in more revenue each year to maintain their growth rates and boost stock prices. But the emerging markets for disruptive innovations are much smaller at first than mainstream markets and cannot provide the huge volumes of new business that keep a large company growing.

These four factors explain why most minicomputer companies could not position themselves well in the personal computer market when the PC emerged. At first, no customers of the large computer companies could use the new devices. They were like toys; indeed, firms like Apple often marketed them for children. Although PCs were developed as early as 1977, the ultimate size of the market and the computers' great potential for word processing and spreadsheet analysis did not become clear until about 1984. The evolution of this market—ultimately one of the world's largest bonanzas—defied the

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skills of the world's best corporate planners and market forecasters. Moreover, the gross profit margins in minicomputers for a firm such as Digital—the mid-range computer producer of the 1970s—averaged about 45 percent, and those margins were always under pressure from competition. The choice was between making higher-performance minicomputers, which promised margins of 60 percent and could be sold for more than $100,000 apiece, or personal computers, which yielded margins between 20 percent and 40 percent and were priced at $2,000 to $3,000 apiece. Hence personal computing represented a much smaller market than minicomputers did during the formative early years. Developing the PC, a classic disruptive technology, simply made no sense for minicomputer makers.

Of course, minicomputers themselves had once been a disruptive technology. In the 1960s, employees had to take punch cards to the corporate mainframe computer center and wait in line for the computer specialists to run the job. System crashes occurred almost daily. At the outset, minicomputers were not nearly as capable as mainframes, so the professionals who operated the sophisticated computers—and the companies that supplied them—discounted their value. But minicomputers eventually enabled engineers to solve the problems that historically only the centralized computing facility could handle. Later on, PCs enabled the less-skilled masses to compute in the convenience of their offices and homes. Even though desktop computers could address at first only the simplest of computing problems, they subsequently evolved into cheap, reliable, and convenient machines, which today do tasks far more complex than those that mainframes and minicomputers used to solve.

Disruptive technologies have plunged great companies into crisis and, ultimately, failure.

Photocopiers provide another example. Xerox once dominated the market with its complex, expensive machines. Employees needing photocopies had to wait at the corporate copy center until the operator could get around to the job. But then Ricoh and Canon brought their slow but inexpensive tabletop photocopiers to the market in the early 1980s. Xerox at first ignored these poorly performing machines; they were not good enough to address the needs of the customers who

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wanted better, faster machines for their high-volume, centralized copy centers. Yet as with minicomputers, the tabletop copiers allowed a larger population of unskilled people to make copies in closets and nearby supply rooms. From those disruptive beginnings, photocopying has become so convenient that easy access to high-quality, feature-rich, and low-cost copying is now viewed as a constitutional right. High-speed photocopying facilities still exist, but they thrive by disrupting conventional printing businesses—enabling low-skilled operators to copy and bind printed matter on demand, which once required the time-consuming skill of professionals.

The examples abound. Alexander Graham Bell's telephone was initially rejected by Western Union, the leading telecommunications company of the 1800s, because it could carry a signal only three miles. The Bell telephone therefore took root as a local communications service that was simple enough to be used by everyday people. Little by little, the telephone's range improved until it supplanted Western Union and its telegraph operators altogether. Merrill Lynch brought equity ownership within the reach of middle-income Americans, and now firms such as E*Trade and Charles Schwab let college students and middle-class investors manage their own portfolios. Likewise, George Eastman's camera enabled amateur photography. In each of these examples, customers ultimately found products and services that were far more reliable, more convenient, and less expensive than what would have been available had these revolutions not occurred. Although they were simple and inadequate at the outset, the disruptive innovations that overturned their industries left people much better off and created huge new waves of economic growth—despite leaving the wrecks of the industry's prior leaders in their wake.

BIG IN JAPAN

NEARLY ALL of the technologies that drove Japan's stunning economic growth through the 1960s and 1970s were disruptive relative to the dominant American and European manufacturers. For example, Japanese steel companies began exporting inexpensive steel targeted at the lowest-quality tiers of the American steel market in the early 1960s. As the Japanese captured these markets and drove the prices

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of their products down, Western steel makers simply exited those tiers of the market to focus instead where profit margins were higher. To improve their own margins, the Japanese steel makers then pursued the Americans into the higher tiers of the market. Today, Japanese companies such as Nippon Steel, Nippon Kokkan, and Kobe Steel are among the world's largest high-quality steel producers.

In similar fashion, Toyota attacked the lowest tiers of the North American automobile market in the 1960s with its Corona model. Over time, this strategy created new growth markets. The cars were so simple and ultimately so reliable that they became second cars in the garages of middle-income Americans. This track worked until Toyota encountered competition in this tier from other Japanese companies such as Datsun (Nissan), Honda, and Mazda. To maintain its profit margins, Toyota then introduced models targeted at more demanding consumers—first the Corolla and the Tercel, then the Camry, the 4Runner, and the Lexus, and finally the Avalon line. Honda and Nissan have followed Toyota in this upmarket march. From the small manufacturers of the cheap Japanese imports of the 1960s, these firms have grown into huge global corporations that make some of the highest-quality automobiles in the world.

Japanese firms are now trapped at the high end of their own markets.

Another good example is the Sony transistor radio. In the 1950s, Sony's battery-powered pocket radio was one of the world's first applications for the transistor, which was then a disruptive technology relative to the vacuum tube. The sound produced by these cheap radios was tinny and static-laced, but Sony's customers—teenagers who could listen to rock-and-roll out of the earshot of their parents for the first time—did not care. Within a few years, Sony and its Japanese competitors had driven American radio producers (who relied on vacuum tubes for their larger, higher-quality products) from the market. Sony disrupted the television market in the same way, starting with a cheap, portable black-and-white model and ending up with its Trinitron. Japan later followed the same tactic in the video-recording and home-sound-system markets. Far from the days when the "Made in Japan" label was considered an epithet, Sony, Matsushita,

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and Sharp are today among the largest makers of high-quality consumer electronics products in the world.

Over and over again, Japanese companies succeeded with this approach. But disruptive technologies also set their own trap. These very firms are now stuck at the high end of their own markets, paralyzed by the four practices of good management cited above. Their best customers are now the most sophisticated and demanding ones, with needs that cannot be served with just another round of disruptive products. The firms' skills at careful planning are legendary, enabling them to compete better in established markets, but they now work against aggressively creating new markets. Their profit margins now can be hurt only if they attempt to move back down-market. And the most successful of these companies—Toyota, Nippon Steel, Sony, Canon, and Matsushita—have grown to join the ranks of the world's largest corporations. They can no longer meet their needs for growth with the kind of modest revenues offered by the first transistor radios, portable televisions, tabletop copiers, and compact cars.

Again, Sony is a good example. Between 1950 and 1979, it introduced nine significant disruptive technologies, including pocket radios, portable televisions, consumer video cameras, and the Walkman. Because of their affordability and simplicity, these products allowed ordinary people to do things that previously had been limited to experts or the wealthy. But since 1979, Sony has not created a single new growth market of this genre. The company has adopted a strategy that is very different from the one that led to the dynamic growth of its first 30 years. Even though it now offers technologically innovative products such as its Playstation and the Vaio line of notebook computers, they are sustaining innovations, not market-creating disruptive ones.

Until the late 1970s, Sony's product-launch decisions were strongly guided by its chief executive officer, Akio Morita, who followed his intuition rather than conducting careful market research to unearth the potential for new products. But as the company became huge and successful in the 1980s, it had to hone its good management practices in market research, planning, budgeting, and resource allocation. These careful, rational processes, which are crucial to an established company's efficient operation, prevented one of history's most successful "serial disrupters" from succeeding at new market creation.

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That said, Sony is exceptional in that it created new market after new market for 30 years before it succumbed to rational management. Most other companies, such as Toyota, Honda, and Canon, created markets only once. Once they secured their initial beachhead, they became fully engaged in exploiting the opportunity they had created and moved aggressively upmarket.

RISE AND FALL OF THE GREAT COMPANIES

THERE IS nothing uniquely "Japanese" about this story. Throughout the world, capable executives balance the interaction of technological progress with customer needs in competitive markets. Most major growth markets are driven by a disruptive technology. The path to greater revenue is upmarket migration, and the ride up that trajectory is exhilarating and rewarding. Just ask the managers and shareholders of Nucor, Intel, Dell, Cisco Systems, Wal-Mart, Charles Schwab, Intuit, and Qualcomm in the United States today. Or ask those who managed or owned the stock of Toyota, Honda, Sony, or Canon in the 1970s and 1980s. Things look great while the ride lasts. But once companies hit the top tier of the market and find that not enough volume exists to sustain growth, the end of the game means painful consolidation. Japanese share prices have been flat for a decade, reflecting not just persistent economic stagnation but a consensus that the economy will continue to languish.

There is little difference in this pattern between American and Japanese companies. Firms in both nations face the innovator's dilemma as they approach the high end of their markets and become unable to pursue new disruptions at the bottom. The American economy has soared in recent years not because the paradigms of American management suddenly have become ascendant while Japan's have been discredited, but because the United States, unlike Japan, has been able to repeat the cycle of disruption.

When U.S. industry leaders become stuck at the top of their markets, employees leave, pick up venture capital on the way out, and start new disruptive companies of their own. In the disk drive industry, for example, the leaders of the 14-, 8-, 5.25-, and 3.5-inch product generations were different companies; every leader found itself paralyzed

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when faced with smaller, disruptive drives. Individual companies usually play the disruptive game only once, but Silicon Valley has continually dominated the global industry as its fluid labor and capital markets continue to draw resources away from the old leaders and create new disrupters.

Although the United States is experiencing record-low levels of unemployment today, this prosperity cannot be credited to corporate giants alone. The total number of employees in the firms in the S&P 500 has in fact declined since 1990. Rather, job growth has come in new firms, especially start-ups that specifically pursue disruptive strategies. Cisco, Intel, Dell, Microsoft, Intuit, EMC, Wal-Mart, Home Depot, and Charles Schwab are just some examples. Many Internet-based companies, mobile telecommunications companies, and pharmaceutical companies are also creating new waves of disruptive growth.

In Japan, however, the story is different. Its leading companies played the disruptive game once but then exhausted their growth options at the high end of their markets. Japan's industrial structure has made it difficult to start the new companies that create disruptive growth. Immobility in Japanese labor markets—the tendency of employees in big companies to remain with their original employer and work their way up its career ladder rather than switch companies—stifles the development of a vibrant venture-capital infrastructure. Successful venture investments depend on luring outstanding talent from established companies to staff new ventures. And the lack of venture capital encourages talented engineers to remain with their initial employers.

Financing differences also help explain the contrast. Rather than cultivating flexible private and public equity markets, Japanese companies rely more heavily than their Western counterparts on debt from affiliated banks. Debt requires predictability and careful development and execution of business plans, whereas successful disruptive entrepreneurs must create new markets that value the new and different attributes of their technology. This means that the latter's initial business plans, particularly their initial concepts of the product and their customers' reaction, are likely to be wrong. Hence venture equity is better at tolerating the experimental, improvisational way in which disruptive firms grope their way through the fog of new markets. Bank lenders—whether Japanese, American, or European—lack this flexibility.

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Japan's Ministry of International Trade and Industry (MITI) became famous for its ability to coordinate multiple companies' investments toward targeted industries and economic growth objectives. But today, the agency focuses on sustaining technologies, inadvertently diverting resources away from any new disruptive waves. Indeed, the industries that MITI has fostered over the past 15 years, including fifth-generation computers and high-definition televisions, are the kind of high-end sustaining technologies that are amenable to planning and coordination. In contrast, by fostering "creative destruction," disruptive innovation automatically supplants established firms with disruptive ones. Creative destruction often eludes central planning, especially in democracies where policies can be influenced by financial support (in its various forms) from established companies.

To their credit, Japanese policymakers have been trying to reform the country's financial system and industrial structure. Some of these reforms—for example, the cross-*keiretsu* merger of Fuji Bank, Dai-Ichi Kangyo Bank, and the Industrial Bank of Japan, or the acquisition of Nissan by Renault—may help financial stability. But these moves are also likely to weaken these institutions' abilities to foster new disruptive businesses. A recent law that gave communities the right to ban large-scale (read: disruptive) retail enterprises similarly constitutes reform in the wrong direction. Although these steps might promise stability, Japan badly needs innovations that facilitate disruption and the economic growth it will bring. On the brighter side, the government has announced an ambitious goal to match its number of initial public offerings with those of the United States. (There is a long way to go: in 1999, Japan launched 62 IPOs, in contrast to 287 in the United States that year.) The government has also said it aims to help start 100,000 new companies within five years. To support this, the Small Business Corporation has helped channel government research and development funds to small businesses on a preferential basis. But if history is any guide, government attempts to guide the flow of R&D capital among businesses will require a rational assessment of plans and projected returns—an approach that will only sustain improvements in existing markets, not work toward the disruptive creation of hard-to-predict new ones.

Private-sector initiatives targeted at creating a more supportive infrastructure for entrepreneurial capitalism are a better answer.

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Japan has started to accept this fact, even though American investment firms in partnership with Japanese counterparts are mostly leading this charge. For example, GE Capital Corporation and Daiwa Securities Group have launched a ¥20 billion fund that will invest in unlisted companies. Goldman Sachs Group and Kyocera Corporation have launched a ¥30 billion fund targeted at high-technology firms. The Japanese venture capital firm Softbank, meanwhile, has been a successful, aggressive investor in disruptive enterprises around the world, recently announcing a ¥150 billion fund for investment in Internet businesses. But despite all these developments, the Asia Private Equity Review reports that the money available for private equity investment in Japan grew from $17.8 billion in 1995 to only $25 billion in 1999—a fraction of what was added to America's private equity coffers during this period.

CREATIVE DISRUPTION

UNDERSTANDING the roots of economic growth is admittedly a complex challenge. What is clearer, however, is how economic growth is tied to the infrastructure that supports disruptive technologies and the creation of new growth markets. The past decade of the U.S. boom supports this proposition. The American economy has combined robust, sustained growth with low levels of unemployment. Even though the major companies have been steadily cutting jobs, small companies—many of them disruptive in character—have quickly picked up the slack. The United Kingdom's economic transformation has similar roots. Although its leading corporations are consolidating and shedding employees, a rash of high-tech companies funded with private equity are driving the country to unprecedented levels of prosperity unimaginable 30 years ago.

The South Korean and Taiwanese economies provide another contrast. South Korea's industrial structure is similar to Japan's. Rather than having its entrepreneurs create new growth markets, the Koreans have attacked large, established markets (such as ship-building, steel, automobiles, consumer electronics, and computer memory chips) by exploiting their relatively cheap labor costs to muscle their way in. The huge *chaebol* such as Hyundai, Samsung, and Daewoo

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have ingeniously mobilized their resources to attack sophisticated global competitors. Given that these firms still have not hit the high end of their markets, their labor cost advantages will continue to help the *chaebol* stay strong, efficient competitors. But South Korea will ultimately face the same challenge as did Japan when its huge corporations find there is not enough volume to sustain adequate growth. Taiwan's economy, in contrast, exudes Schumpeterian capitalism. Few of its companies can muster an all-out attack on global industrial concerns as the Koreans have done. But thousands of new companies financed with private equity start there each year, many with strategies targeting disruptive markets. Not surprisingly, Taiwan sailed through the recent Asian economic crisis with barely a scrape.

THE GREAT LEAP DOWNWARD

LOOKING AHEAD, the disruption process could hold the key to economic development in poor countries. Globalization's real market opportunity lies with the billions of poor who are joining the market economy for the first time. Consider the approach that General Motors has taken to China's automobile market. It recently opened a plant there to manufacture Buicks for the small but price-insensitive premium tier of the market. Over time, GM might convince enough wealthy Chinese to buy Buicks instead of BMWs so that the investment will generate acceptable returns. It has also been investing hundreds of millions of dollars to develop an electric vehicle that is large, powerful, and safe enough to be used in the U.S. market. Until now, the few electric cars that have been sold in America cost so much and perform so poorly that they offer little prospect of volume or profit. But imagine if GM targeted its electric vehicle technology to create new markets for middle-income Chinese, Indonesians, and Thais—i.e., those who could afford cars that were priced around $3,000. The crowded, polluted streets of Shanghai, Jakarta, and Bangkok could constitute a much more hospitable market for electric vehicles than do the expansive freeways of California. If GM figured out how to make and market profitably a $3,000 car for the masses, it would form a powerful platform to launch an upmarket attack on more developed markets around the globe.

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The Solar Electric Light Fund (SELF), a nonprofit organization with projects in countries from Brazil to South Africa to China, is another good example. Two billion people on the planet have no access to electricity, instead using for fuel such dangerous, polluting substances as kerosene, candles, wood, and dung. Since most of these poor live in rural regions of the developing world, it is unlikely that electrical service grids will be extended to them any time soon. And given the growing crisis of greenhouse gas emissions, an extension of fossil fuel–based power would further devastate the environment. To achieve a sustainable form of rural electrification, therefore, SELF created a fundamentally different model premised on small-scale, on-site solar power generation. SELF brokers the purchase, installation, and operation of household-scale solar photovoltaic units among the rural poor; these units, in turn, draw on the radiant energy of sunlight to produce voltage. Through a revolving loan fund, rural villagers get the money to own and operate their own electrical systems.

In rich countries, researchers and marketers are struggling to bring down the cost of photovoltaically generated power to make it competitive with conventional sources and capable of satisfying the power-hungry appliances that fill homes and offices. But photovoltaic power faces none of these obstacles among the rural poor in developing countries. It is by far the cheapest source of electricity, and the consumption of electricity in poor, largely appliance-free homes is much more modest. As in the other examples mentioned above, the crucial breakthrough for this disruptive technology will not occur in the laboratory. Rather, it will seek a market where the disruptive approach does not compete with established technologies and instead establishes a foothold for robust future growth.

The future of other potentially disruptive technologies such as fuel cells and microturbines will also be forged at the bottom of the pyramid. Rather than trying to prematurely force their technology into developed-world applications, companies such as Ballard, Capstone, and BP Amoco have begun to exploit the opportunity presented at the bottom. Early experience makes it clear that a different business model is required. But with billions of potential customers in the developing world and the subsequent potential to migrate toward mainstream applications in developed markets, the investment is worth it. Given

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the size of the potential market at the bottom of the pyramid, savvy multinationals are already beginning to exploit this emerging opportunity.

Hindustan Lever Limited (HLL), an Indian subsidiary of Unilever, provides an example of how this process works in practice. Like most large industrial concerns, it had long catered to the needs of upscale customers in India. But a local firm, Nirma, challenged HLL in its detergent business by creating a new business system that geared its product formulation, manufacturing process, distribution, packaging, and pricing to the needs of poor customers. Initially, HLL dismissed Nirma as a low-end producer. As Nirma grew rapidly, however, HLL realized both its new opportunity as well as its vulnerability. Nirma was attacking HLL's detergent business from the bottom of the pyramid.

HLL responded, somewhat belatedly, with its own offering for this market—drastically altering its traditional business model in the process. It created a new product that cut the ratio of oil to water in the detergent, thereby reducing the pollution associated with washing clothes in rivers and other public water systems. It decentralized the production, marketing, and distribution of the product to take advantage of the abundant labor pool in rural India and quickly penetrate the thousands of small stores where the poor shop. By reinventing the cost structure of the business, it was able to slash prices. Although gross margins were lower, unit sales were very high, making this business one of the most important growth and cash generators for the company. Even Unilever has benefited from HLL's experience in India. It transported the same business principles (although not the product or the brand) to create a new detergent market in Brazil. Even more important, Unilever has now focused on the bottom of the pyramid as a strategic priority at the corporate level.

Exactly what kinds of disruptive technologies might emerge within countries such as India and China cannot be easily extrapolated from the market needs and success stories of developed economies. The trends, in fact, might flow in the other direction: technologies emerging from these countries may have profound but unpredictable implications for the rich world's markets. Moreover, the concept of disruptive technology remains a relative one. Something that is disruptive in one company can have a sustaining impact on another, and the kinds of disruptive technologies that might emerge in India

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and fuel its economic growth may not necessarily replicate the success stories of developed economies. But whatever they are and wherever they emerge, disruptive technologies are still more likely to come from start-up companies than from global conglomerates. Once the right reforms help create small companies with strategies aimed at a broader consumer base, more people will benefit more rapidly.

Who can facilitate this potential for disruptive capitalism in developing countries? Corporations such as Unilever have the resources, but history suggests that few firms will. Doing so would require pursuing opportunities that, at first blush, make no sense to their business models. But the economies of many of these countries have far greater resources than do the largest corporations. India, for example, has more well-educated engineers and managers than any country in the world. What they lack is local, small-scale venture capital and a transparent, consistent regulatory infrastructure. If they can help create such conditions, these countries indeed face an exciting, disruptive future.

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Digitally Empowered Development

Allen L. Hammond

THE GROWING GAP

ADVANCES IN INFORMATION and communications technology did more than almost anything else to drive the last decade's economic boom and the integration of markets around the planet. New data networks, automated inventory control, and just-in-time manufacturing systems have made U.S. companies the most efficient in the world. The Internet has increased the speed of development—electronic commerce, although still in an early phase, has already transformed industry after industry by enabling greater efficiency. E-mail and instant messaging are becoming ubiquitous in industrial countries, and mobile phones are expected to reach one billion people worldwide by 2002. The money spent on the digital infrastructure that supports these burgeoning new services—from Internet servers to fiber-optic networks—has itself become a major engine of economic growth.

The speed of these developments, the corporate economic power they embody, and the wealth they have created are truly astonishing. But alongside these positive trends are other, more sobering signs. These warning signs take various forms and are especially visible in developing regions and among the four billion people—more than half of humanity—who live on less than $1,500 a year. The population continues to grow rapidly in the poorest areas of the world, and a surge in urban migration, bringing with it unprecedented demands for housing, water, sewerage, and jobs, now threatens to overwhelm

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cities. Biological resources—such as forests, fisheries, and the fertile soil on which billions of people still directly depend for food and income—are being depleted. Meanwhile, poverty persists in many regions. And despite abundant world food supplies, malnutrition is rising in Africa and southern Asia because growing numbers of people can no longer produce enough food for themselves and are too poor to buy what they need.

These problems are beginning to wreak havoc in other areas as well. Potential conflicts over scarce resources, large-scale migration, and urban crime and instability are starting to threaten national security. New forms of terrorism, AIDS and other devastating diseases, and the changing climate are all having similarly destabilizing effects. Ever-larger disparities between haves and have-nots undermine the kind of social consensus essential for stability and political progress.

An important example of this inequity is the global gap opening between those who share in the digital revolution—and the increased productivity and wealth it creates—and those who live on the other side of the digital divide, including the more than half of the world's population who have never even made a phone call. The Internet may be changing everything for those who use it, but it is doing nothing for the 19 out of 20 people who still lack access.

If these dangerous trends continue—if development does not accelerate and if the benefits of economic progress and new technology do not reach those at the bottom of society—then rather than increased prosperity for all, a grimmer vision of the future may prevail. Such a scenario suggests an unstable future, ridden with conflict and environmental problems, in which islands of prosperity are surrounded by oceans of poverty and frustration. In such a world, even prosperous regions would fear for their security, for when all else fails, the poor will learn to export their misery and anger.

But trends are not destiny. The imaginative use of emerging technologies and the creation of partnerships or cooperative approaches that combine the skills of major corporations with the growing strength of civil society can accelerate development in even the poorest regions and can reverse many of the most worrisome trends. Although no less an authority than Microsoft Chairman Bill Gates has recently expressed grave doubts about the power of technology to close the

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global development gap, such pessimism is misplaced. The potential for bold new measures to jump-start development already exists. All that is missing is the courage to take the necessary steps.

GETTING CONNECTED

ACHIEVING THIS BETTER FUTURE will require a new development model, one that goes beyond the conventional focus on free-market capitalism, entrepreneurship, and global trade expansion—although such factors will play important roles. Nor will traditional, top-down development directed by governments and financed by foreign aid be adequate, since this approach has a very mixed track record and declining support. What is needed instead is a bottom-up model that makes credit, communications, information, energy sources, and other self-help tools directly available to communities and individuals in poor regions, empowering them to take charge of their own development.

The idea behind this new development model is that basic services should generally be provided by businesses—sometimes directly, sometimes in partnership with governments or networks of nongovernmental organizations (NGOs). The right strategies can enable the poor to become customers and pay for the services they receive, services that will improve their quality of life and increase their productivity. Such programs could reach tens of thousands or even hundreds of thousands of communities or rural villages—far surpassing the very limited scope of conventional development efforts, and functioning on a scale large enough to make a profound difference in the destiny of a region and the welfare of its people. Very few, if any, governments of developing countries can deliver services in a million places at once, yet many global corporations do just that every day. Why not encourage such companies to provide both consumer goods and basic services tailored to the needs and budgets of poor communities?

Such ideas are already plausible, thanks to the rapid global expansion of digital networks, the spread of the Internet, and the proliferation of cyber-cafés, village phones, and other forms of shared access to communications technology. High-capacity fiber-optic links now span the oceans, crisscross China and Latin America, and extend to many African countries. Next-generation mobile networks are

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beginning to emerge that will carry data as well as voice messages, providing wireless access to the Internet. Still in development are fleets of low-orbit satellites that will offer phone service and data links from virtually everywhere on earth by connecting modified mobile phones or cyber-kiosks in even remote rural villages.[1] In little more than a decade, the vast majority of the Earth's people will live in communities that are connected, in one way or another, to the global digital network.

Communications technology could accelerate development in far more than just the economic sphere. Indeed, wiring the planet will transform it beyond recognition. It will increase access to educational materials, basic health information, and other critical resources in local languages. A single database in Spanish, Chinese, or Hindi, accessed by phone or cyber-kiosk, could serve much of a continent. Connecting the world could unlock the productivity of poor communities: farmers, for example, could access weather forecasts or planting advice or market prices, which would empower them to produce larger crops for more money. Access to digital networks could improve quality of life more generally, by allowing people to summon help, share experiences with others, form political coalitions across a region or the globe, and add their voices to world affairs. Greater connectivity will also help fulfill the nearly insatiable human thirst for information and expose geographically isolated communities to wider horizons and new opportunities, which could create a more modern social and political outlook within a single generation.

Fortunately, the drive to create universal digital access already has powerful political support. Last summer's economic summit of eight of the most advanced nations saw the creation of a Digital Opportunity Task Force in which governments, the private sector, and international organizations are now working together to close the digital divide.

But not everyone agrees that new technology can catalyze human development. Gates, among others, has argued that people who live in absolute poverty need adequate food, clean drinking water, and

[1] The promise of low-orbit satellite systems is still unproven. The first, Motorola's Iridium, went bankrupt. A second, Globalstar, is still struggling. A third, the ICO-Teledesic system backed by the entrepreneur Craig McCaw and by Bill Gates, plans to start providing service early in 2003.

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basic health care far more than they need personal computers. Indeed, few would disagree with such a claim. But access to communications networks or the Internet—whether through shared village phones, community cyber-cafés, or other emerging technologies—can help people at all economic levels to meet their basic needs. Even an illiterate farmer could use a phone and an automated voice-recognition system to check crop prices. Or a woman visiting a rural health clinic could use a similar system to obtain information about AIDS that she might be too embarrassed to ask a health worker for.

THE TRUTH IS OUT THERE

A NUMBER of innovative experiments already under way suggest that achieving global digital access and jump-starting development may not be as difficult as many think. Rural Bangladesh, for example, where incomes average less than $200 per year, might not seem like promising territory for a mobile phone company. But GrameenPhone has shown otherwise. In partnership with the renowned microfinance trailblazer Grameen Bank, it has pioneered a new model for rural telephones based on shared access—one phone per village—operated by a local entrepreneur. The bank loans a villager, usually a woman, the money to buy a mobile phone; she sells access to the phone to her neighboring villagers, who pay for calls in cash. As documented in an independent study by the Canadian International Development Agency, such village phones have been a commercial success, each phone generating revenues that average more than $100 per month—three times what the company earns from its urban mobile phones. The pent-up demand for telephone service and the ability and willingness of poor people to pay for it have turned out to be enormous. Not only are the phones profitable; they have also been a social success, providing economic benefits and improving the lives of villagers in ways that put most antipoverty programs to shame. Incomes of the phone entrepreneurs have risen sharply. And phone calls can now substitute for a trip to the city that would cost villagers ten times as much as a call. The village phones also have helped people working abroad send money to their families back home, enabled farmers to get fairer prices for their crops, and allowed people to discuss funerals or other important occasions with relatives.

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If a rural telephone program can work in Bangladesh, one of the world's poorest countries, why not everywhere? And why stop with simple phone service, when a digital network can also provide e-mail or Internet access or a host of other services? Other experiments are already exploring such possibilities. They include LINCOS, a joint venture of the Massachusetts Institute of Technology Media Lab and a Costa Rican foundation, which transforms abandoned shipping containers into digital community centers with Internet access and places them in remote villages throughout Central America. The centers provide education, health, and financial services, as well as access to entertainment and telecommunications. Many of the services are supplied by commercial partners. Meanwhile, TARAhaat, an ambitious business start-up organized by a widely praised Indian group called Development Alternatives, aims to create jobs and provide a broad suite of services for poor communities in rural India through village kiosks and Internet-based information systems linked to a digital network.

E-commerce can also be tapped for social purposes. In Argentina, a novel public-private partnership will soon supply affordable Internet access and educational services from the Education Ministry, bringing the country's schools and some ten million students on-line. The costs of the system and of student access are being financed by a new private company that will raise money from advertising and e-commerce rights. The combined effort will train the workers (Internet-savvy college graduates) that Argentina needs to enter the virtual economy and jump-start the country's e-commerce marketplace, all without massive public investment. Such a program could be cloned rapidly in many emerging markets.

Other experiments abound. Viatru is an Internet commerce site that pairs artisans in developing countries with commercial retailers in the United States. The venture helps artisans match colors, styles, and products to retailers' needs, while helping retailers find reliable suppliers and facilitating the transactions between them. By aiding artisans in finding markets, Viatru is helping create sustainable livelihoods and boosting incomes. Similarly, an e-commerce Web site called Greenstar sells digitized music and paintings by indigenous artists in developing regions. By providing information about local

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musicians or artists, the site helps record and preserve local cultures, many of which are endangered. Revenues from the venture support a solar-powered digital community center in a village within the region.

MICROFINANCE, MICROPOWER, AND MICROMEDICINE

ANOTHER SUCCESSFUL STRATEGY for increasing prosperity worldwide builds on the intensifying competition for customers among banks and other large financial entities and relies on the power of new digital systems to track millions of customer accounts while steadily lowering transaction costs. It is a bitter irony that advertisements for credit cards and home equity loans clog mailboxes in countries such as the United States, while as many as 500 million people in poor countries have no access to credit at all. Yet extensive microloan programs are starting to change that, typically with unsecured loans of $100 to $500. Successful microfinance systems usually create groups of borrowers who are jointly responsible for repayment. They make weekly payments on loans and usually have default rates of less than three percent—a better record than that of most consumer loan portfolios in the United States. Microloans have proven to be a core development tool, enabling borrowers to expand small businesses, invest in fertilizer to increase crop yields, or otherwise improve their circumstances.

Despite charging interest rates as high as five percent a month, virtually all microfinance organizations remain nonprofit entities that depend on donor capital to support or expand their operations. The primary reason for this is high transaction costs: without the promise of profit, commercial banks are unwilling to finance such loans. But digital tools are beginning to lower costs. PRIDE Africa, a microfinance organization operating in East Africa, manages its loans digitally and is beginning to combine and package them for resale to commercial banks. Acción, a U.S.-based organization, has experimentally equipped some of its loan officers in the field with Palm Pilots that digitally record loan-payment information. And yet no nonprofit entity has the technology to manage even rudimentary financial services on a scale big enough for the half-billion people who cannot get a loan.

Citigroup does, however. It is already experimenting with kiosk-based banking services for small depositors (with a $25 minimum) in

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India. Suppose that Citigroup or other global financial companies were willing to digitally link corporate capital and processing power with microfinance organizations on the ground. With lower transaction costs, microcredit could become a commercially attractive business, vastly expanding the financial resources available to poor communities and accelerating bottom-up development. At the same time, banks could develop new relationships with tens of millions of potential customers for more sophisticated financial services.

Access to both connectivity and credit would expand people's options and accelerate development. And still other possibilities exist to provide basic services via the private sector or novel partnerships. For instance, poor communities need electric power but are often located far from power grids. Microloans could enable such communities to buy small, self-contained solar-power packs just large enough to run a small water pump, recharge a mobile phone, power a radio, or keep vaccines cool in a community health clinic. Solar power has languished in the developed world, but a huge new market for micropower could exist in rural parts of developing countries; indeed, both Shell and BP Amoco are now exploring just that idea. And with mobile phones or Internet links to report diseases and order vaccines and other medicines, new partnerships between NGOs and pharmaceutical companies could discover large new markets for low-priced basic medicines packaged in disposable self-injectors. Micropower, micromedicine, and microfinance may sound like very modest businesses, but multiplied by three billion or four billion potential customers, they become huge enterprises.

RADICAL TRANSPARENCY

ACCESS TO NEW TECHNOLOGY and credit will not be enough to ensure a more secure future, however; poor communities also need simple justice. Such justice must include protection from the dangerous or unlawful actions of private interests or corrupt governments—especially in developing countries, where regulations are often weak or unenforced. One way to achieve this protection would be for NGOs and community groups to form global networks, linked through the Internet, and then work together with leading companies or trade

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associations to establish environmental and social standards. These groups could then monitor corporate performance against those standards, even in developing regions, exposing companies that employ child labor, cut down old-growth forests, or defy other social and environmental expectations. These networks could also root out and reveal corrupt officials or help protect poor farmers from land grabs. Such efforts, and the greatly enhanced transparency they would bring, would be less expensive, more flexible, and more effective than government regulation, especially in developing countries.

Such ideas are already rapidly becoming a reality in the forest sector, with the creation of Global Forest Watch (GFW) by the World Resources Institute. GFW is a worldwide network of local forest groups linked via the Internet and equipped with advanced software tools. It combines satellite imagery with detailed on-the-ground data collection, compares actual forest practices with lease agreements and established standards, and posts the resulting data and maps on the Internet, naming the companies and countries involved. GFW has also demonstrated a novel model for partnership between the private sector and civil society, a model that is changing the market for forest products. Ikea, Home Depot, and other major retailers of forest products have committed to using wood that comes only from properly managed forests, and these companies are working with GFW to implement those commitments, using the network's growing country-by-country and company-by-company databases. Similar global networks to monitor fisheries, other extractive industries, and the environmental performance of governments are all under consideration.

Microcredit could soon become a commercially attractive business.

Imagine the public pressure civil society will be able to bring to bear on companies, industries, or even governments a few years hence. A network of several hundred local groups, each equipped with miniature video cameras small enough to hide in a purse, could exercise tremendous influence. The cameras could be linked to the Global Positioning System (GPS), so that each frame of video would be stamped with the time and the location—creating evidence that would be hard to dismiss. Footage from each camera could be transmitted instantly over the Internet. The result would be a kind

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of radical transparency: the equivalent of CNN everywhere, all the time. No contentious action would go unnoticed and unpublicized. Although such extreme efforts might be uncommon, greatly increased transparency will affect virtually all organizations, public and private. Global NGO networks may prove a better check on the power of global corporations than are national governments.

The Internet has already begun to make censorship virtually impossible, as governments around the world are discovering. When Yugoslav President Slobodan Milošević tried to shut down the Belgrade radio station B-92 in 1999, its journalists simply broadcast their reports over the Internet, giving Serbs and the world at large access to firsthand accounts of the protests that eventually toppled the Milošević regime.

These examples suggest but do not exhaust the possibilities for empowering the have-nots of the world. The examples have several things in common: they use novel partnerships and build on the digital networks being put in place by the private sector to deliver development services or protect environmental resources on a very large scale. And they suggest new ways of "privatizing" the delivery of basic services—whether they relate to connectivity, credit, or justice—to support a bottom-up, self-help development model.

WHO WILL PAY FOR PROGRESS?

IT IS COMMONLY ARGUED that a lack of money is the primary barrier to helping the poor, keeping the peace, or protecting the environment. But if governments really want to tackle such projects, the means are readily available. For example, governments could agree by treaty to tax the global economy for what are essentially global purposes, with the proceeds going into a global fund to pay for services such as development and peacekeeping. International flows of trade, capital, and information have been growing much faster than national economies: nearly 9 percent a year for international trade, nearly 20 percent a year for international capital flows, and an even higher rate for international flows of digital information (data traffic on the Internet is growing at about 100 percent annually). The value of these international transactions is huge: currency transactions alone add up to more than $1.5 trillion a day. One reason for such staggering growth may be the

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absence of taxation: in effect, the global economy currently gets a free ride, since it is not taxed at a global level. Yet a tariff on currency transactions at a rate of a quarter of one percent—so low as to be invisible to anyone except currency speculators—would raise $750 billion per year. Even in the new economy, that would be real money.

Such a tax may not be a practical strategy. But discussing it makes clear that the real problem in achieving the goals set out above is not a lack of money. Rather, it is a lack of the political will to use government to tackle the underlying problems. Even if adopted, however, a governmental strategy would embody the kind of top-down approach to development that has not worked very well in recent decades. A far better way to make progress may be, in effect, to "hire" the private sector to provide basic services and to empower civil society to work with and monitor the private sector. In some cases, market incentives may be required. But enlightened capitalism coupled with creative philanthropy will probably suffice.

There is certainly no shortage of capital to support promising new business ventures. In fact, venture capital may need to go global—there is too much money chasing too few good ideas in the United States right now, and competition for higher rates of return will increasingly lead venture capital groups and major corporations to seek unexploited opportunities in other parts of the world. Venture financing stimulates innovation at a very rapid pace, far faster than any other social mechanism yet devised. And rapid innovation—the invention of new ways to provide basic services, of new ways for people to earn a living or improve the quality of their lives—is what is needed to accelerate development, especially in poor societies. The novel strategies described above should have both ample capital and powerful commercial incentives behind them, for they involve more than half of humanity—a huge untapped market.

There is also no shortage of philanthropic capital to support the expansion of civil society and experimentation with novel partnerships and boundary-crossing strategies. Indeed, we seem to be entering a golden age of private social investment, as new wealth is rapidly recycled into bold philanthropies. Building on emerging digital networks to forge new kinds of partnerships and combine public policy with private action is therefore more than just plausible. It offers our best hope yet for creating a world that is not just richer, but genuinely better.

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The Knowledge Gap

Avinash Persaud

A PENNY FOR YOUR THOUGHTS?

FOR A LONG TIME, economists saw capital, labor, and natural resources as the essential ingredients of economic enterprise. In recent years, they have also come to recognize the role of technology, as well as information, innovation, and creativity, in expanding economic potential. Now the Internet has increased the scope of innovation by lowering information and distribution costs. As a result, what is emerging today is a combination of innovation with "equitization," wherein individuals and companies sell equity stakes in good ideas and use the capital they raise—rather than the help of existing profit—to realize these ideas. In the first six months of 2000, for example, biotechnology companies raised $20 billion in the stock markets to finance gene research, even though related revenues are not expected for many decades to come. Despite their lack of profits and recent downgrading, many "new economy" companies with untraditional business models are nevertheless valued in billions of dollars. Established rules on the role of capital in investment and economic growth and development need to be rewritten. The implications are significant—but run contrary to the current consensus.

In a globalizing and liberalizing world, unlimited capital can be tapped across traditional boundaries. According to State Street Bank, cross-border private equity flows have already leapt from $268 billion in 1995 to an estimated $1.1 trillion in 2000. For the first time, such flows now rival those in government bonds. With past profits and current capital no longer a major constraint, a country's future economic

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prospects will depend predominantly on knowledge. Yet examining the relative knowledge base of different countries today does not lead to optimism about reducing the income gap. It is doubtful that the knowledge revolution will let developing countries leapfrog to higher levels of development, as many technologists and Internet evangelists assert. In fact, the knowledge gap will likely widen the disparities between rich and poor, imprisoning many developing countries in relative poverty.

But such pessimism is rarely expressed these days. Revolutions begin with bursts of optimistic fervor, and at first glance the knowledge revolution seemed no different. Most financial booms are spiced with stories of excess such as the marbled mansions of the "robber barons," but the recent technology boom celebrated university dropouts working 20-hour days in abandoned garages, making it big while still wearing the same ungainly spectacles. Developing countries also became actors in this drama, as Internet entrepreneurs from humble backgrounds made instant fortunes in Bangalore, Shanghai, and Seoul. It is also commonly said that the new knowledge technologies bolstered democracy. The Internet and mobile phones helped spread information to places where governments previously held a monopoly on news. Perhaps the best weapons of the protesters in Belgrade, for example, were not stones and placards but the mobile phones that disseminated information and mobilized action.

But reality is less romantic. For the last five years, forward-looking financial markets have suggested that the knowledge economy will actually expand the gap between rich and poor. From 1990 to 1994, when the knowledge revolution was nascent and technology sectors were dwarfed by more traditional sectors, U.S. investors in emerging markets received returns of 117 percent. That high payoff reflected the significant risks involved and the emerging markets' potential for robust growth from low levels of development. Over the same period, investors would have lost 2 percent in overseas developed markets. In contrast, from 1995 to 2000—when the technology sector first boomed, then plummeted, and yet remained large—emerging market stocks fell 27 percent, whereas those in developed markets rose 43 percent. This comparison would be even more striking if it excluded the handful of middle-income high-flyers, such as Hong Kong, Taiwan, and Singapore.

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Why have the markets seen better opportunities in the developed world than in the developing one? Because the equitization of innovation favors rich countries and disadvantages poor ones. This difference stems from the knowledge gap and factors related to it, such as weak institutions, dependence on commodity exports, and the uneven playing field that developing countries face in the global economy.

GOOD CONNECTIONS

CONTINUOUS, profitable innovation requires three things: knowledge development, the cross-fertilization of ideas among knowledgeable people, and good governance—especially with regard to the legal protection for innovation. On each front exists a widening gap between rich and poor countries that is even more daunting than current income inequalities.

Knowledge comes from people with the time and resources to discuss, think, and experiment. One approximate measure of these activities is the number of scientists and engineers engaged in research and development. According to the most recent *World Development Report* by the World Bank, the United States, Japan, and Germany have on average 3,805 research scientists and engineers per one million people. That ratio is 31 times the equivalent figure for Malaysia, Thailand, and Brazil—121 per one million. Yet the ratio of per capita GDP for these two groups of countries is just 3 to 1 (if adjusted for purchasing power). The knowledge gap is therefore ten times the size of the income gap. And it is growing due to the brain drain from the developing to the developed world, from which Silicon Valley has already benefited. The United States, the United Kingdom, and Germany are now actively encouraging the immigration of highly skilled workers from developing countries.

Equally vital to the development of innovation is networking between knowledgeable people. When an economist in a small, backwater town in Iowa begins some new research today, she can conduct an Internet search and download previous research from more than a thousand journals on-line. She will also have nearly free access to the archives of major news organizations through a free Internet connection at a very low, off-peak telephone cost. After

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sorting and digesting this information and developing her own thoughts, she can e-mail her ideas across many countries to the experts she came across in her search. Most will not reply, but a few will, offering advice on further research or invitations to a conference.

Many researchers in developing countries lack this opportunity. The same goes for civil servants who wish to explore policy options. The diminishing costs of computers and Internet access would seem to make knowledge and information more widely available, but poor nations face organizational, training, and cost constraints. Whereas in 1998 an average of 557 telephone lines existed for every 1,000 people in the United States, Japan, and Germany, there were just 3 for every 1,000 in Bangladesh, 4 in Nigeria, and 19 in Pakistan—countries with a combined population of 365 million. In middle-income countries such as Malaysia, Thailand, and Brazil, the average was 134 per 1,000. Some optimists argue that wireless technology has allowed countries to bypass expensive investment in laying lines, but the gap in mobile phones is even wider than in fixed lines. The hot spots of Mumbai (Bombay) may hum with mobile chatter, but there was only one mobile subscriber among every 1,000 people in India in 1999, compared with 310 among every 1,000 Americans. The communications gap is, in effect, a large multiple of the current income gap. More important, certain fields of knowledge cannot be easily transferred across telephone lines. The cross-fertilization of some ideas requires physical proximity. Innovative atomic physicists, biotechnology experts, and geneticists tend to congregate in very few places, putting their more isolated counterparts in poorer countries at a disadvantage. Moreover, many new technologies in automation, information, and molecular genetics are best exploited by companies at the center of large interdisciplinary research networks. Economies of scale are emerging in the knowledge industry, and research networks are already established in the developed world in places such as Palo Alto and Boston.

Patents are one direct measure of the resulting innovation gap. The total number of patents filed by residents in the United States, Germany, and Japan in 1998 was 539,347. That statistic dwarfs the 453 issued in Brazil, Malaysia, and Thailand or the 57 issued in Pakistan, Bangladesh, and Nigeria. China and India, with a combined population of 2.1 billion, filed only 17,862. This yawning patent gap between rich

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and poor reflects where profitable innovation is taking place and where it is not—and this gap is set to widen further. For example, the completion of the mapping of the human genome has spurred health research into bioinformatics, developmental biology, and protemics—which is leading to a spurt of patent applications almost exclusively in the United States and Europe.

Not only do patents measure the innovation gap; they reinforce it. A patent provides a temporary monopoly on the exploitation of an innovation, adding greatly to its value. Some protection is important to stop an innovation from becoming a public good that would otherwise be unprofitable to develop. But as knowledge becomes more important, rich countries are responding by broadening protection for intellectual-property rights. The U.S. patent office has tried to extend patents on business models, methods, and processes—and then ensure worldwide enforcement. Amazon.com, for instance, has gone to court to protect its patent on the idea of "one-click" shopping.

IBM, often considered to be just a computer company, now earns $1.5 billion every year by licensing patents—a sign of the new commercial role of knowledge. In this sped-up world, it takes less and less time for ideas to become profitable products, so the recent extension and reinforcement of intellectual-property rights by the World Trade Organization (WTO) resembles a power play rather than a rational economic assessment. How far patent protection should go is unclear, but recent developments will no doubt reinforce the advantage of the companies and countries that develop patented ideas. This imbalance shoves yet another wedge between the rich and the poor.

GOOD GOVERNANCE

THE SHIFT from valuing revenues to valuing the innovations ahead of revenues increases uncertainty. Companies can do only so much to reduce this factor. More important is the business climate, particularly the stability and transparency of property rights. A nation's fiscal, regulatory, and supervisory environment makes a difference: the greater the uncertainty in developing an idea, the more reluctant investors will be to chase after innovations.

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Consequently, countries with weak institutions will be pushed into a self-perpetuating cycle. Knowledge can help governance, and the new knowledge economy places greater emphasis on good governance. Hence, if a country lacks a good knowledge base, it is likely to have poor governance, which in turn will steer capital away. The resulting combination of poor governance and scarce capital will make the development of a knowledge base more difficult. A recent survey by *The Economist* ranked countries according to good-governance factors such as tax and labor-market policies, infrastructure, skills, and political environment. The top ten were rich nations; New Zealand was the tenth, with per capita GDP around 60 percent of U.S. levels. The bottom ten were all developing countries; Mexico was at the top with per capita GDP around 24 percent of U.S. levels.

The prevalence of corruption is one more form of poor governance that investors dislike. A recent Transparency International survey ranked New Zealand at the top for having the least corrupt public officials, while Nigeria languished at the bottom. The ten least-corrupt countries have developed economies, whereas the ten most-corrupt ones are developing countries. (That said, some developed countries, including Italy, Spain, Greece, Portugal, and Belgium, also fared relatively badly.)

THE COMMODITIES TRAP

AS INNOVATION has become more valuable, other enterprises have suffered, especially if technology adds little to their value. Among the worst hit are commodities, where the Internet's arrival has reduced already-narrow profit margins. In the past, a commodity exporter could charge a premium for certainty and quality of distribution—important factors when buyers are fragmented and search costs are large. Now the Internet has compressed these costs. Buyers can go to a host of cybermarkets such as e-Steel.com or FreeMarkets.com and post a bid for a graded commodity; in turn, sellers compete for buyers by shrinking their profit margins. As costs fall, buyers win and sellers lose. With a few exceptions such as Australia, New Zealand, Canada, and Norway, most commodity sellers are developing countries; most buyers are developed countries. The ten countries most dependent on

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agriculture and commodity exports are all developing countries, whereas the ten countries least dependent on agriculture and commodities exports are all developed countries.

Finally, the shrinking of profit margins is most acute for commodity sellers. Unlike sellers of services, for example, commodity exporters cannot use the Internet to repackage unsold products for different markets and sell them at a discount without damaging profit margins in their main market. There are no "special weekend break" prices for a ton of sugar. In contrast, Travelocity.com and other Web sites sell unsold airline tickets and hotel accommodation at costs lower than the prebooked price, helping raise occupancy rates without lowering prices and revenues elsewhere.

Meanwhile, developing countries lag far behind in exporting services. Whereas the big commodity exporters are developing countries, the big services exporters are developed countries. The United States leads this category with 17 percent of the world's services exports, followed by Japan and France. Only three emerging markets rank in the top 20: China (including Hong Kong), South Korea, and Taiwan.

GLOBAL BULLIES

THE CONSEQUENCES of a poor knowledge base and commodity dependence for developing countries are made worse by the global economy's unfair playing field. As commentators focus on growth rates, they underplay the significance of the economic size of nations in terms of both GDP and the stock of wealth. In recent years, countries such as India and China have grown faster than major industrial countries, but relative wealth (as indicated by stock market growth) has expanded faster in the latter. The knowledge-intensive and militarily strong developed nations have been exploiting their power to promote their economic interests beyond free-market outcomes.

In trade negotiations, the large industrial countries dominate the agenda. The threat of withdrawing aid and trade concessions, freezing assets, and imposing other economic sanctions is enough to compel most developing countries to fall into line. After decades of negotiations under the General Agreement on Tariffs and Trade, tariffs on developing-

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country exports (e.g., textiles and agricultural commodities) remain much higher than those on exports from industrial countries. Today, these tariffs are being removed only gradually while new barriers are emerging in the form of antidumping measures, health and safety "exceptions," and environmental and labor standards. If they had their way, the antiglobalization protesters who claim to speak for the poor would further impoverish the disadvantaged by implementing unrealistic labor and environmental standards.

Technological, organizational, and marketing hurdles are also making it more difficult for poor countries to penetrate markets. Lagging behind in knowledge and institutional quality, developing countries cannot secure patents or copyrights for the intellectual property they do have. Some developing countries have complained that rich-nation companies copy their traditional practices and medicines to patent them back home and then try to charge locals for abuse of patent. The neem plant, a resin-producing evergreen that has been used for centuries in India for pest control, is a case in point.

Furthermore, when developing countries try to offset their inherent disadvantages by lowering taxes, they are blocked from doing so. For example, the Organization for Economic Cooperation and Development (OECD) is trying to develop an international regime to control offshore financial centers. Although legitimate concerns about money-laundering exist, dubious offshore activities are nothing compared to the much more serious abuses in the major financial centers: investigations into the laundering of $4 billion by the former Nigerian dictator Sani Abacha, for example, have centered on his London accounts. Developing countries thus have genuine concerns that the OECD is really motivated by fear of tax competition. Indeed, the first of the four OECD criteria that classify countries as "uncooperative tax havens" is low or no taxes. In effect, the OECD is attempting to use extraterritorial power to influence offshore tax policies—an area traditionally regarded as a sovereign right of countries that is retained even as economic integration advances. British Prime Minister Tony Blair certainly believes the same when it comes to the European Union's attempt to harmonize taxes.

Critics of globalization and liberalization claim that these forces marginalize poor countries and aggravate poverty. In fact, globalization is not a zero-sum game, and all can benefit. But its current manifestation

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harms the poorer developing countries because they miss out on the knowledge and innovation needed to exploit the expanded opportunities resulting from globalization. Their decline is not only relative but absolute—because the advanced world remains more adept at capturing opportunities, even some of those that developing countries had previously exploited.

BOOM AND BUST

THE KNOWLEDGE REVOLUTION has already started to make life difficult for developing countries as cutting-edge technology sectors compete with emerging markets for access to risk capital. Indeed, over the past five years, returns have been far higher for the technology sector of world markets than for emerging-market equities; more than 90 percent of the global technology sector is in developed countries. For investors devoted to high-risk, high-return ventures, technology and emerging markets have become substitutes for each other. As technology markets have outperformed emerging markets, cross-border portfolio flows have switched from emerging markets to technology. From August 1999 to August 2000, when shares in the global technology sector rose almost threefold, the flow of foreign money out of emerging markets (excluding Asia) roughly equaled the entire market capitalization of those same markets. The flow of foreign direct investment into developing countries may appear strong today, but it is highly concentrated; much is devoted to one-time privatization in established areas such as telecommunications and utilities rather than new-business expansion.

To some extent, the switch out of emerging markets into technology markets has been amplified by the tendency of investors to chase returns. Once technology stocks stabilize at more sustainable levels and returns in emerging markets revive from recent turmoil, some of these trend-chasers may come back to the emerging world. However, even if both markets offered the same returns and the same historical volatility, portfolio flows will likely still favor technology markets in developed countries, given the large, nonquantifiable risks in developing countries. These risks include concerns over political stability and the certainty and enforceability of property rights. Not only do emerging markets have to compete with technology returns, but their markets

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must outperform to attract international capital. Even as technology shares have fallen in recent months, investors continue to flee emerging markets. Those that still attract investors are a handful of liquid and technology-heavy markets such as those of South Korea, Taiwan, and Hong Kong—which have absorbed the lion's share of equity portfolio flows to emerging markets. Moreover, despite the current gyrations of the markets, the technological revolution is not over. In the case of biotechnology, it has just begun. The shift out of emerging markets into the technology sector of developed markets is not just a feature of the technology boom. It underscores the permanent disadvantage that emerging markets face as the equitization of innovation makes developed markets more and more attractive.

A SLIPPERY SLOPE

FIVE INITIATIVES could stop the knowledge gap from further widening the income gap. First, developing countries need to pursue a twin strategy of opening their borders to more foreign direct investment and improving basic education. Knowledge spreads more easily as foreign companies introduce foreign technologies. Just as rich countries are relaxing immigration restrictions for those individuals with the right technology skills, poor countries can relax foreign-investment restrictions for their own knowledge-intensive industries. But knowledge cannot take hold without proper literacy. The priorities of cash-strapped governments should be to provide basic education to all, spread knowledge opportunities through foreign direct investment, and offer tax breaks to encourage the private sector to support training and advanced education.

Second, developing countries need to break up their communication monopolies. Knowledge grows as it runs along telephone lines, e-mail, and wireless connections. The more expensive and restricted these means of communication are, the more limited is the development of knowledge. Given current trade agreements, developing countries can even call on the WTO for help in revising those contracts that have ceded monopoly rights to private companies.

Third, developing countries can help their local companies gain access to international lenders and investors by encouraging them to adopt international standards of accounting, supervision, and prudential controls.

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Fourth, developing countries need to prioritize what is needed for good governance: a well-trained civil service appointed on merit, clear property rights, an independent judiciary, and tough and enforceable laws against corruption. All these are more easily said than afforded; even well-intentioned governments in developed countries sometimes succumb to temptations of power. The best guarantors of good governance are an effective democracy, educated voters, and a free press. International organizations and donor governments should make these three pillars conditions of any economic support beyond emergency aid.

Fifth, rich countries need to practice what they preach on trade. Their economic security makes them well placed to open their markets to products from all low-income countries—not just the poorest. This openness not only will promote economic development but will support their own economic and security interests. Yet rich nations often behave like old-fashioned mercantilists. In doing so, they make the current global trading system vulnerable to a backlash from developing countries and to public opinion in developed countries. Through their disproportionate influence, they have insisted on free trade only in services in which they are dominant, opposed low-tax centers that may threaten their revenue-raising powers, and called for labor and environmental standards to protect their industries at the expense of those in developing countries. Moreover, they have been dragging their feet for decades on reducing tariffs on agricultural and semi-manufactured goods from poorer nations. If rich nations continue this behavior by insisting on extended patent protection—which also benefits them disproportionately—the developing countries will likely lose all sense of having a stake in the global economy. The harmful repercussions will hinder the West's ability to secure peace and prosperity.

None of these five initiatives are relevant only to the knowledge revolution. They are initiatives that governments should pursue anyway. But the knowledge gap has made it vital that countries pursue and prioritize these issues. Those developing nations that grasp this imperative have a chance to climb up. Those that do not will find that the slope has become steeper—and all too quickly iced over.

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China's Cyber-Strategy

Nina Hachigian

DANGEROUS LIAISON

OFTEN RESTRAINED in its enthusiasm for Western suitors, China has fallen in love with the Internet. Not only is the Chinese Communist Party (CCP) hailing the Internet's vast commercial potential, but it is also successfully exerting state control over the Chinese Web and its use. Recognizing that an unregulated network would shift power from the state to citizens by providing an extensive forum for discussion and collaboration, Beijing has taken care to prevent this commercial gold mine from becoming political quicksand. But a victory over cyberspace cannot be decisive, because the Internet cannot deliver its full commercial benefits under strict political control.

It will be some time, however, before the Internet becomes a political threat in China. In the near term, the Internet may in fact strengthen the party. The CCP's popularity now so depends on economic growth that its leaders are safer with the Internet than without it. And their three-part strategy for maintaining authority in a networked society—by providing economic growth and some personal freedoms, managing the Internet's risks, and harnessing its potential—will be effective for some time. The power shifts wrought by the Internet will surface clearly only during an economic or political crisis in a future China where the Internet is far more pervasive. At that time, the Internet will fuel discontent and could be the linchpin to a successful challenge to party rule.

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LOVE AT FIRST SITE

CHINA EMBRACED THE INTERNET later than did most developed nations, but it is quickly catching up. According to the state-affiliated China Internet Network Information Center, China's on-line population has mushroomed from fewer than one million users in 1997 to more than 22 million today, and some predict that number will rise to more than 120 million by 2004. Wireless Application Protocol (WAP) technology could rapidly boost the on-line population by bringing the Internet to China's nearly 70 million cellular phone users; connections through cable to the 100 million cable TV customers are also currently in trials.

As in the United States and Europe, companies in China have been wearing ".com" (or ".com.cn") behind their names as a badge of modernity. Although the Chinese Web is still relatively small (30,000 sites, according to some official estimates), more than half a million domain names are registered, and new sites come on-line continuously, offering content nearly as diverse and unpredictable as that on the English-language Web. In Beijing, Shanghai, and Hong Kong, Web-related advertising plasters every visible surface: buses, billboards, and stadium walls. And Internet cafés flourish in all the major cities.

Contrary to many Western media portrayals, factions of the Chinese government at the central, provincial, and local levels are actually encouraging much of this activity. The CCP-controlled media tout the Internet, and leaders routinely emphasize the importance of the "knowledge economy."

And the government practices what it preaches. The "Government On-line" initiative, launched in 1998, aimed to ensure that 80 percent of all government agencies—local and national—had Web sites by the end of 2000. The Ministry of Information Industry (MII), China's powerful network regulator, has insisted that the major telecom provider, state-owned China Telecom, lower its access charges, which have dropped to less than a third of 1997 prices. China Telecom is also adding two million new lines each month to meet the surging demand for network access. Moreover, officials are encouraging the competing state-owned telecommunications providers, China Unicom, China Mobile, China Netcom, JiTong, and China Railway Telecom,

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to build their own networks. Government-funded technology parks provide low-cost homes for Internet start-ups, and Beijing offers tax breaks for high-tech firms.

THE ALLURE

WHY, given the political risks, is the government promoting the Internet? Its decision originated in 1978, when, in leading China's opening to the West, Deng Xiaoping replaced ideology with economic growth as the cornerstone of future party legitimacy. Since then, Western influences have multiplied, the grip of communist dogma has weakened, and growing numbers of citizens have learned about the higher quality of life in other countries. The continued power of the CCP thus depends heavily on its ability to improve standards of living.

China's leaders have witnessed the Internet's impact on American, European, and other Asian economies and realize that no other economic model offers a more promising future. As the country's exposure to the global economy grows, soon to be accelerated by membership in the World Trade Organization (WTO), Chinese businesses must embrace new technologies simply to stay competitive. They need access to market information and, if not wired, risk being shut out of the increasingly Internet-based supply chains of foreign buyers such as American retail giant Wal-Mart. The Internet sector also promises to attract valuable foreign capital and accompanying technology. Initial public offerings (IPOs) of Chinese Web companies on NASDAQ raised more than $400 million between July 1999 and July 2000, though recent market volatility has slowed this trend. The potential efficiencies of e-commerce are also compelling. And industries once practically nonexistent in China, such as the travel industry, are developing directly on-line.

So far, then, the economic evidence only reinforces the wisdom of China's decision to welcome the Internet. China's information technology (IT) sector has been growing at three times the rate of the overall economy, and faster than any other industry.

Beijing even hopes the Internet will reform bloated state-owned enterprises (SOEs). The government has pushed SOEs toward e-commerce, sponsoring Web sites that sell excess inventory and

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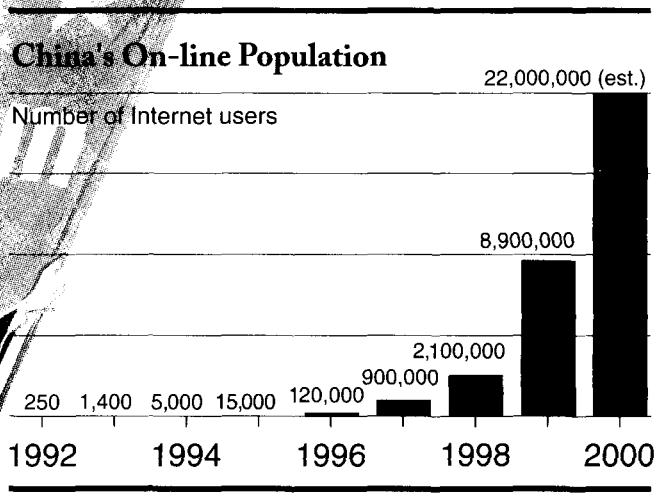

Note: Numbers are end-of-year totals.
Sources: China Internet Network Information Center, BDA China Ltd.

equipment. Beijing's "Enterprise On-line" initiative, launched in July 2000, aims to put seven million Chinese businesses, including many SOEs, on the Web by the end of 2002. The most formidable challenge will be bringing the Internet to small and medium-sized enterprises—99 percent of China's companies—half of which do not even own a computer.

Officials are also encouraging the IT industry because they see an opportunity to enrich both themselves and the state. Telecommunications revenues, which increased by more than 20 times in the 1990s, flowed almost exclusively to the state. Money from IPOs of state-owned telecommunications providers pours into state coffers as well. The success of China Unicom's debut, which raised a record $4.9 billion on the Hong Kong and New York stock exchanges, may be dwarfed by China Telecom's listing planned for later this year.

Though official policy dictates a formal separation of regulators from the regulated, many government entities invest directly or indirectly in the IT sector. New state-invested Web sites are announced regularly. Private companies seek government partnerships because they provide political cover and make it easier to pry capital from state-owned banks.

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Finally, the Internet is essential to realizing the leadership's—and the Chinese people's—desire for China to retake its proper world standing as a modern, advanced, powerful nation. As one senior government official put it, "we in the government think we missed a lot of the industrial revolution. And we don't want to miss this revolution." China is determined not to be left behind by neighbors India, South Korea, Japan, and Singapore, which are working diligently to integrate IT into their economies.

A SUCCESSFUL COURTSHIP

IN THE NEAR TERM, the Internet affair will not jeopardize CCP rule. First, network technology is not yet widely affordable or available. Only slightly more than one and a half percent of the Chinese population use the Internet, fewer than two percent own computers, and only about ten percent even have telephones. Even in cities, Internet accounts are an expensive luxury and access is slow. And WAP technology will bring only an anemic version of the Internet to cell phones, at least in the near future.

More important, the CCP's three-part network-control strategy is working. The first goal is to ensure a pacified populace by meeting citizens' desires for economic growth and some personal freedoms. China's leaders are wagering that people buying their first cars or hoping to list start-ups on the NASDAQ will not tolerate the chaos that has historically accompanied forced political transition. And in fact, surveys have shown that over the 20 years since Deng began emphasizing the economy along with ideology, average Chinese have become more concerned with their own families' well-being and less interested in politics. To nurture a market economy the CCP must allow its citizens the autonomy necessary to expand private enterprise. These days, most people can work, travel, speak privately, and surf the Web with relative freedom. In turn, this personal latitude may give citizens fewer incentives to challenge the government.

Second, Beijing is taking active steps to manage the potential negative consequences of the Internet. Many government entities are involved in Internet regulation. Because the Internet defies the neat categories that the Chinese bureaucracy needs to assign problems to

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one department or another (implicating security, the economy, society, and culture) and because it is a potential source of revenue for ministries, a turf battle has grown among and within government bodies. The coming convergence of Internet, wireless, and cable technologies will only exacerbate such tensions. Perceptions of the Internet also vary. Predictably, the security forces view the Internet as a major threat. Others in government, including members of the leadership, would prefer to cultivate the industry, especially domestic players, subject to constraints.

These intragovernmental squabbles are producing a growing thicket of regulations. To take just a few, last year the Ministry of Culture barred foreign-invested Web sites from selling audio or video products, the Ministry of Education required preauthorization of on-line schools and education portals, and the State Press and Publishing Bureau demanded that book retailers obtain licenses to operate on-line. The substantial body of laws that has resulted—many of which are either never enforced, enforced selectively, or actually in conflict with one another—is inconsistent with China's stated desire to promote the rule of law and creates a nebulous legal environment that scares off investors. But the uncoordinated rush to regulation does serve the government's control agenda: the resulting rules create the maximum possible scope of official authority.

PROPHYLAXIS

THE CHINESE GOVERNMENT'S nearly unlimited legal discretion allows it to take specific steps to manage the Internet's potential risks. Foremost, officials are working to ensure a large Chinese-language Web with "safe" content. A physical measure they take is to place blocks on some pornographic and political sites hosted overseas. Though these barriers have proven leaky, they remain useful in deterring casual surfers.

However, the self-censorship that the regime promotes among individuals and domestic Internet content providers (ICPs) is the primary way officials control what Chinese viewers see. Regulations released in January 2000 prohibiting the on-line transmission of "state secrets" serve as a useful catchall for limiting content, as do

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extensive regulations issued in October prohibiting content that subverts state power, "disturbs social order," undermines reunification efforts with Taiwan, spreads rumors, "preaches the teachings of evil cults," distributes "salacious materials," dispenses pornography, slanders others, or harms the "honor" of China. On-line news is strictly corralled as well: November regulations emphasize that sites publishing news must obtain special licenses, may never generate their own content, and instead may only republish stories from official sources.

Beijing has no sense of humor about Internet content regulations, so self-censorship is common on the Web.

If aggressively enforced, Internet regulations could span virtually the full breadth of ICP activity, and the ICPs are aware that security forces can shut them down for some offense at any time. Thus they carefully comply with content standards so as not to draw the attention of authorities. "There are some issues the government has no sense of humor about," one Web developer remarked, "and we just stay away from those." Some sites hosting chat rooms employ monitors known as "big mamas" to delete explosive content; others run software that deletes key terms. The October regulations formalized a requirement that ICPs save content from their sites for 60 days to turn it over to investigators if asked. Well-publicized arrests reinforce self-censorship.

The government's policy of regulating the Internet by encouraging Chinese ICPs to censor themselves is effective, as these ICPs largely dominate the mainland China Web. Because they advertise in China, are praised in the traditional media, and cater to mainland customers, their sites remain more popular than those of offshore providers. In addition, connections to the China-only Intranet—created in part to isolate users from spiritual pollution—are often cheaper. Two recent surveys showed that eight or nine of the ten most popular Web sites among mainland Chinese are mainland-based.

Beijing is also flooding the Internet with its own content. "Government On-line" has put more than 3,000 government departments on the Web, giving the government nearly one-tenth of all mainland sites. Even small rural counties maintain home pages to attract foreign investment. State funding of many commercial Web sites, including

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those of official news agencies, ensures additional sanctioned content. Chinese dissidents claim they are regular targets of government disinformation campaigns on the Net, and e-mail could provide officials a new channel to communicate nationalist or pro-CCP messages.

Moreover, when subversive messages do sneak on-line, the CCP's tight control over traditional media can help dilute or contradict them. For instance, despite ample evidence on Western and Asian news sites about Slobodan Milošević's aggression against the Kosovars, the official press helped to persuade most Chinese that NATO's 1998 bombing campaign unfairly targeted innocent Serbs.

Beijing is also engaged in a delicate dance with foreign investors, the in-laws of the Internet marriage. On the one hand, foreign ownership erodes state authority over business and allows profits to migrate abroad. On the other hand, the Internet industry is promising precisely because it attracts economy-fueling foreign direct investment, some $150 million to date, which is especially welcome because China lacks a venture-capital tradition.

Not surprisingly, then, the government has tolerated foreign investment but retains the regulatory power to nullify arrangements at will. Though all foreign investment in ICPs has been officially prohibited, the ban was enforced only when foreign-invested Chinese ICPs applied for permission to list themselves on foreign stock exchanges. To obtain permission to go public, established portals had to restructure, but dollars continued to flow to young firms. The October regulations specifically require ICPs to obtain MII permission before striking deals with foreign investors. China has, however, pledged that once it accedes to the WTO, it will allow foreign investment of up to 49 percent in "basic" telecommunications services and 50 percent in "value added" services, including Internet content. Protectionist impulses and security concerns, however, will keep the parameters of investment muddy for some time.

DOMESTIC VIOLENCE

ALONG WITH SELF-CENSORSHIP and regulation, physical force and intimidation also play a continuing role in Internet management in China. Force both induces self-policing and backs up the regime's

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pacification strategy for those who openly challenge the party. The spiritual group Falun Gong and others can organize by e-mail, but that does not make adherents invisible at police checkpoints or impervious to beatings and imprisonment when they arrive to protest.

Security forces are also expanding and honing their high-tech capabilities. All levels of government are training cyber-police, and experts report that Ministry of Public Security (MPS) "computer supervision and monitoring units," based in every provincial capital and most large cities, now number in the hundreds. The October regulations require ISPs (most of which are part of China Telecom anyway) to keep records of all subscribers' names, account numbers, and the phone numbers from which they dialed into the Internet. As more powerful e-mail filters such as the FBI's Carnivore develop, police will be better equipped to detect subversive activity. But for now, because digital communication is too massive and anonymity remains easy, security forces tend to rely on traditional investigative methods and usually monitor on-line activity only after a suspect is targeted.

Over the past three years, as Internet users have multiplied, cyber-police have stepped up their prosecution of Internet content violations. Democracy organizers, human-rights activists, Falun Gong members, scholars, and other dissidents have been arrested for on-line crimes. In October, for example, writer Qi Yanchen was sentenced to a four-year prison term for "subversion" in his print and on-line articles advocating political reform.

Security forces find targets abroad as well. Computer operators traced to the MPS have attacked and crashed foreign Falun Gong Web sites in several countries. And when then Taiwanese President Lee Teng-hui announced in 1999 that Taipei should deal with Beijing on a "state-to-state" basis, 20 Taiwanese government Web sites came under attack. Taiwanese military analysts claimed the hackers were both Chinese civilians and People's Liberation Army specialists.

MARRIAGE OF CONVENIENCE

ALTHOUGH they recognize and try to manage the risks of the Internet, "officials in Beijing believe that an adequately designed network will serve first and foremost the interests of the central government," according to

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consultant Peter Lovelock of Madeforchina, a company that provides interactive marketing and consulting services to clients in China. Indeed, the central government is using the Internet's infrastructure to improve its own administrative control over provincial and local officials, and thus over the economic growth that the Internet and an open economy will generate. In 1994, it launched 13 "Golden Projects" to meet this aim. "Golden Card" will establish a national banking exchange to tie all banks to the People's Bank of China, enable a national ATM and credit card system, and provide Beijing with information about the activities of local branches. Premier Zhou Enlai recently urged government operatives to speed up implementation of "Golden Customs," which will automate customs procedures for maritime imports, and "Golden Tax," a system designed to make local tax bureaus more accountable by electronically connecting their value-added tax records to the State Administration of Taxation. Reports suggest that Beijing is also now investing in "Golden Shield," a computer network linking national and local police agencies nationwide. Even simple e-mail could help eliminate the once persistent problem of provincial ministry offices claiming central directives were lost in the mail.

WILD BRIDE

IN THE NEAR TERM, these measures—fostering a network economy, regulating Internet content and punishing violators, mediating ownership, and harnessing the network for government use—will enable Beijing both to capitalize on the Internet's economic benefits and to counter its risks. As long as control efforts are directed at political content and not on-line commercial activity, they are unlikely to dampen the enthusiasm of entrepreneurs and investors. But total control of today's vast, borderless, redundant cyber-architecture is not possible. In the long run, therefore, the Internet has the potential to aid those who would challenge the CCP.

To a large degree, the Chinese government cannot direct how willful surfers use the Internet. Although self-censorship is largely effective for mainland sites, the government cannot stop someone determined to explore cyberspace beyond China's borders. And once connections to the Web are permitted, blocks of foreign sites must be piecemeal

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because information is stored without order, and without central control, in computers around the world. The Web is like a train carrying millions of passengers—scientists, porn stars, doctors, dissidents—sitting randomly throughout the cars. The only way to sort them is to stop the train, have inspectors climb aboard while everyone waits, and throw the undesirables off one by one. With more than four million individual Web sites globally and some estimated two billion Web pages in the world, blocking just the most egregious content is an overwhelming task. Even during last year's crackdown on the Falun Gong, a Waco, Texas, site carrying Falun Gong material remained accessible in China. On a given day, "savetibet.org" is blocked but "freetibet.org" is not. Comprehensive monitoring of the more than 20 million e-mail messages sent per day in China is also unfeasible. The best authorities can do is target certain individuals or keywords.

Because the Internet offers multiple paths to any destination, surfers can circumvent the barriers even when the Chinese government does block individual sites. In 1999, a Chinese newspaper's report on how to use proxy servers for "faster" connections taught readers how to reach banned material. (Proxy servers allow access to blacklisted sites by laundering requests for blocked Web sites through available ones.) Many computers in Beijing Internet cafés are preconfigured to use proxies. Furthermore, much illicit material is available on "innocent" sites: articles from *The New York Times*, the site of which is blocked, are carried on other mainstream U.S. sites that are not. Finally, people overseas can always copy information from banned Web sites and send it via e-mail into China.

The more difficult problem of Internet management is that the additional steps Beijing could take to control content would dampen the very commercial benefits that the government hopes for. Forbidding access to Web sites hosted outside China would sharply reduce China's access to global market information and capital flows. Also, speed is critical to business, and blocks on sites slow down the network. Thus, the government's 1996 attempt to build a massive firewall had to be abandoned because it hobbled the whole system. Furthermore, since privacy of financial information is essential for e-commerce, strict regulations on the use of encryption software enacted in late 1999 could not have lasted long and were "reinterpreted" shortly after being introduced. The attributes of

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the Internet that promote commercial growth—speed, breadth, and privacy—improve the Net as a tool for noncommercial purposes as well.

FOR BETTER AND FOR WORSE

THESE DAYS, as the Chinese economy expands and the political regime remains stable, the lack of total control over the Internet does not pose a critical problem for China's government. The vast majority of Web surfers do not seek to make use of its subversive potential. But that potential exists nonetheless. And if Internet use continues to grow in China, and an economic or political crisis occurs, the Internet will suddenly become both a field and a tool of battle.

The Net cannot create rebellious social forces, of course, but it can nurture and empower those that exist. In any nation, the Internet lowers the costs of information retrieval, duplication, and exchange. But in China—where information is often impossibly expensive and rights to group communication largely unestablished—the changes wrought by the information age will be seismic. Control over information will slowly shift from the state to networked citizens, and virtual public spaces will allow many to communicate at once.

The Internet's ability to provide a flood of new ideas makes it the most formidable challenge yet to a key source of power, one practiced by Chinese governments for centuries: the power to shape public opinion in a way that leads citizens to accept the CCP's political legitimacy. The Internet continues the pluralizing process that other mass media—radio, TV, phones, and fax machines—started. These technological advances have all been slowly making it more difficult to control public discourse and thought through a consistent barrage of state propaganda and a complete intolerance of alternative viewpoints.

More readily than previous technologies, the Internet offers probing viewers access to particular kinds of information that the CCP finds threatening. Though censored, both dissident messages and scholarly material critical of the regime increasingly find at least a temporary home in Web pages, e-mails, and on-line bulletin boards. More and more publications offering "subversive" ideas are developing electronic editions. The government is aware of the Internet's broadcast effect: for example, it did not censure Li Shenzhi, a respected

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intellectual, when he published a critical paper in an academic journal; it took action only after the paper appeared on-line.

Even the spread of simple news stories can be problematic for the party. Once-obscure local tales of scandal are now nationally known because mainland portals pull interesting stories from the only sanctioned source: local, official newspapers. Information about events affecting China is also readily available on Asian and Western news sites. Many in China were able to read the text of Taiwanese President Chen Shui-bian's conciliatory inaugural speech, which did not appear in any official publication, on the Internet. Even excerpts from *The Tiananmen Papers*, which describe the debate among China's leaders over how to address the pro-democracy demonstrations in 1989, were posted on on-line bulletin boards and discussed in chat rooms in China within days, perhaps hours, of their release in the United States. An Associated Press story quoted one Chinese Web surfer's posting—later deleted—which said, "To know whether the Tiananmen Papers are true or not, just look at them on an overseas Web site and judge for yourself."

The Internet offers powerful communication channels through which ideas can spread and citizens can mobilize more easily. Hostility toward the government collects and builds in public cyberspace as it cannot in physical China. In chat rooms, many Chinese denounced Beijing's attempts to reduce support for the more pro-independence candidate in the March 2000 Taiwan elections as either too strong or not strong enough. Criticism of China's environmental policy and of corrupt officials also appears regularly in the chat room of the official *People's Daily* and on university bulletin boards on-line. On-line conversations can be very politically charged, most likely because censors are overwhelmed and unable to delete sensitive content quickly enough. Yet police rarely shut down such chat rooms—perhaps because they offer officials who lack the benefit of a free media a way to discover what citizens are thinking or because they give elites a sanctioned place for fairly free speech.

The anonymous, fast, and relatively inexpensive communication allowed by the Internet places an unprecedented tool in the hands of the few Chinese now dedicated to political change. E-mail was critical to the growth of the now-outlawed China Democracy Party, for example. Today, anyone in Beijing can anonymously buy a prepaid Internet card and log in with a laptop or surf anonymously at an Internet café,

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and use hard-to-trace, Web-based e-mail under an assumed name. Readily available "anonymizer" and encryption programs offer additional protection. E-mails can replace dangerous personal meetings among dissenters. Furthermore, the instant dissemination of information about a political event to thousands of people can build momentum behind a cause faster than past media ever could.

The borderless nature of Internet technology can also place activists out of the reach of Chinese law enforcement. Many have noted that the Falun Gong organized its April 25, 1999, silent protest of 10,000 people in front of Beijing's Zhongnanhai leadership compound through e-mail, taking authorities completely by surprise. Less reported, but just as crucial, the sect's leaders, now in New York, still organize protests and send e-mail alerts to reporters in Beijing. Activists at the underground dissident journals *The Tunnel* and *VIP Reference* forward their reports to hundreds of thousands of Chinese e-mail accounts from the safety of the United States.

In addition to facilitating political dissidence, Internet communication may be slowly helping to cultivate China's nascent civil society. Statistics about this trend are unavailable, but it is clear that China's small number of advocacy groups are increasingly plugging into the network of activists thriving on the Web. Those with niche or discouraged interests, such as the gay community, also coalesce through specialized Web pages and discussion groups. Eventually, these groups, even if informal or apolitical, may begin to serve as counterpoints to government authority.

Finally, the Internet contributes to the people's growing economic independence from the state by expanding the IT sector. Salaries are high for the average dot-com employee, never mind the few millionaire entrepreneurs.

THE BREAKUP

IN THE NEAR TERM, the Internet's effects will not threaten the CCP's power because the party's management tactics are effective, because only a small proportion of the population is on-line, and because few care to challenge the ruling regime during the present period of economic and political stability. But perhaps five years hence, when one in ten Chinese citizens will have Internet access and virtually everyone

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will know someone with an account, the shift in information control and communication will have the potential to undermine CCP rule. Exposure to new ideas, new perspectives on government actions, and events in China will have grown. Economic independence from the state will have increased. Connections between citizens will have multiplied. A political or economic crisis in this wired China of the future would unfold differently than it would today.

Consider a hypothetical scenario. The economy hums along, and private businesses flourish. The Internet eventually reaches ten percent of the population. As always, officials at every level take bites of everyone's fortune through taxes, corruption, excessive regulations, and local protectionism. Then the economy dives. Perhaps a crisis over Taiwan or leadership succession shakes people's confidence in the regime and prompts a bank run. Panic spreads quickly, and government measures fail to contain the damage.

To avoid further disrupting the economy—now heavily reliant on electronic communication—authorities do not shut down the Internet. Concerned citizens visit foreign Web sites by the millions and exchange e-mails with the diaspora and each other. Officials cannot obscure the truth of events as they once could, and citizens learn about the depth of the crisis, its mismanagement, and the hardship pervading the country. They are emboldened when they learn, as they could not before, that many others share their long-standing resentment of the government, now exacerbated because financial tolls hit harder. With easy organizing on the Internet, encouragement from dissidents and others abroad, and a sensed opportunity, shared frustration and anger turn to protest. Peasants and workers, who already stage regular protests in the thousands, coordinate their efforts and join elites. Citizens monitor how the government responds to those demonstrations as they could not during the protests in Tiananmen Square; they see photographs and video clips posted by ordinary Chinese. News about a violent crackdown travels quickly, triggering protests that eventually grow so large that the party cannot contain them.

This scenario does not describe a certain future and may sound far-fetched because the party's containment strategies are currently working. But it illustrates how the Internet could, during a crisis, unleash discontent in a way never before possible.

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RESTRAINING ORDER

ALTHOUGH CRITICS of the CCP may advocate action, the U.S. government should do nothing to boost the pluralizing potential of the Internet in China. The flip side of China's quandary over the Internet is the United States' fortune—because the Internet is a commercial vehicle, U.S. and other foreign businesses will push for its expansion in China without added incentives. And any suspicion that the United States wants to use the Internet in China for political gain or is working to thwart Chinese domestic government controls will feed conspiracy theories about a U.S. cyber-invasion and generate mistrust. Washington should therefore only continue to do what it is doing already: pushing for high ceilings on foreign investment, assisting in the implementation of WTO rules, and encouraging China to cooperate with the international development of Internet regulatory standards.

A useful measure that a private group could undertake would be to sponsor an Internet commission made up of American, Chinese, and other foreign regulators, industry representatives, and experts. The commission would discuss how to regulate (or, more important, not regulate) the Internet industry in a way that creates an environment supportive of rapid Internet growth and compliant with WTO rules. Its sessions should be framed as mutual problem-solving forums, not as lectures to the Chinese.

The United States should not harbor hopes for Internet-led democratization in China. Even if the Internet does amplify a crisis that leads to the demise of the CCP, democracy—or even a more tolerant autocracy—is not a guaranteed or likely outcome in a country with no organized opposition party.

In sum, until a serious political or economic crisis galvanizes antiparty sentiment on a large scale, the CCP leadership's three-pronged strategy of pacifying the populace, managing the negative influences of the Internet, and yoking the power of networking will maintain CCP authority. If those societal pressures do develop, the Internet will unleash them in a way never before possible. But perhaps the CCP will forestall that eventuality by introducing the real political reform that only it, and not the Internet, can offer.

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Trade Policy for a Networked World

Charlene Barshefsky

NEW ERA, NEW CHALLENGES

TRADE POLICY has been a notable and bipartisan success of postwar American foreign policy. Across 10 administrations and 26 Congresses, Washington has guided the world's economies toward freer trade and higher levels of development—from the foundation of the General Agreement on Tariffs and Trade (GATT) in 1947; through the U.S. Trade Expansion Act of 1962 and the Kennedy, Tokyo, and Uruguay Rounds of GATT negotiations; to the U.S.-Canada Free Trade Agreement, the North American Free Trade Agreement (NAFTA), recent trade agreements with China, Vietnam, and Jordan, and legislation liberalizing trade with Africa and the Caribbean. Current challenges along these lines include completing negotiations on free trade agreements with Singapore and Chile, inaugurating a new round of the World Trade Organization (WTO) and negotiating Russia's entry into it, and moving forward on a Free Trade Area of the Americas.

Trade agreements have grown in complexity and scope over time, but the landmark achievements of earlier years all dealt with essentially similar problems. They catalogued and reduced tariffs, quotas, and other trade barriers. As a new century opens, however, trade policy is taking on a fundamentally new set of challenges—ensuring an open, competitive, well-regulated information economy. One of the principal

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achievements of the Clinton administration was to begin rethinking trade policy to fit this new economy. And one of the great opportunities for the new Bush administration is to build on the foundational agreements of the Clinton years and fully adapt trade policy to the information age.

SETTING STANDARDS AND PROTECTING IDEAS

TRADE HAS TYPICALLY involved goods one can see crossing the border: beef, steel, semiconductors, cars, or bottles of wine. Postwar administrations thus initially focused on such tangibles by trying to persuade other governments to remove their import tariffs. As tariffs fell, the focus shifted to eliminating import quotas, which distort market behavior and the allocation of resources. As these formal barriers began to diminish, trade negotiations moved into more arcane fields such as harmonizing technical standards—so that a semiconductor chip built in Costa Rica and a hard drive assembled in Southeast Asia, for example, can run programs written in India for a computer designed in North Carolina.

As President Bill Clinton took office, the development of a networked world added a new set of questions to these familiar issues. Trade policy in the 1990s had to address not just tangible goods traveling by plane or boat, but also weightless products that move instantaneously around the world by wire or satellite beam. Whereas previous negotiations catalogued and reduced a set of existing trade barriers, now policymakers had to anticipate and prevent the creation of new types of barriers.

This adaptation was a high-stakes challenge with potentially enormous payoffs. History had shown that trade barriers take little time to impose but decades to remove. The newly created information networks, however, had no formal trade barriers. The emerging information economy thus offered two great opportunities: a far-sighted and multilateral U.S. trade policy could help preserve open commerce in cyberspace while creating a legal framework to give all trading nations the maximum incentives for creativity, growth, and development.

The Clinton administration, aware of its great responsibility to help shepherd the emerging global information economy, began with

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a set of cautionary principles designed to prevent precipitous actions and policy mistakes. Information technology (IT) industries are still in their infancy, and policies made now will have enormous effect on the course of their development. And of course, policies are most beneficial and easiest to enforce when they arrive through consensus. So Washington and governments abroad need to develop policies through cooperation and discussion with industry, consumers, and others affected by electronic transmissions. Finally, because the Internet has no natural borders, any one country's policies on Internet services will affect the high-tech economies in the United States and around the world—so domestic policies must proceed in tandem with the international system.

With these principles in mind, the Clinton administration worked carefully to develop a basic set of standards that, if adopted by foreign governments and international trade organizations, could replicate worldwide the United States' rapid development of a networked economy: strong intellectual-property standards that encourage investment, open IT markets that will bring in capital and create economies of scale, competition in the telecommunications industry, open markets in services, and caution about policies that would limit development of the Internet.

The intellectual-property-rights program, dating to the Omnibus Trade and Competitiveness Act of 1988, is perhaps the oldest U.S. initiative designed to foster a worldwide information economy. At the time the act was passed, many countries had no copyright, trademark, or patent laws. Some saw intellectual-property rights—especially when applied to pharmaceuticals or high-tech products such as computer software—as obstacles to development. But without laws in place to protect these industries, piracy and counterfeiting were not just common but often nearly universal.

To address this problem, Washington began bilateral negotiations with countries where these practices were most egregious. These negotiations were aided by the "Special 301" law of 1988, which required the U.S. trade representative to investigate countries that denied adequate protection to intellectual property. The talks were difficult; at times, as with China in 1995 and 1996, U.S. negotiators had to threaten sanctions on billions of dollars in trade. But the efforts significantly

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raised the standards by which foreign countries agreed to uphold intellectual-property rights, spurring passage of internationally compatible copyright, patent, and trademark laws around the world.

A bilateral approach remains necessary in many regions today, but the United States can now go beyond adversarial tactics to more cooperative methods. Having strengthened their legal and enforcement regimes, many U.S. trading partners now enjoy increased foreign investment, which in turn enhances access to technology at home, and have thus concluded that strong intellectual-property standards could speed up their economic development. This consensus allowed for the negotiation of a landmark global agreement on intellectual-property protection (TRIPS), implemented when the WTO was created in 1995. Through TRIPS, all WTO members committed themselves to enact and enforce modern copyright, patent, and trademark laws.

OPENING HIGH-TECH MARKETS AND BUILDING THE NETWORK

HAVING SECURED this far-reaching agreement on intellectual-property protection, the administration set out to eliminate trade barriers in high-tech goods. Free trade benefits both consumers and producers of technology: it reduces the costs of goods and enables innovative industries to take advantage of economies of scale, thus recouping their investments in research more rapidly by selling to larger markets. As with intellectual-property protection, international technology trade has evolved from a difficult and confrontational environment toward one in which U.S. trading partners see shared benefits in open markets.

Many countries had long preferred using tariffs, subsidies, or a combination of the two to nurture their high-tech industries. The Clinton administration thus focused its initial negotiations on countries where these trade-distorting practices were especially common—principally Japan, but also some European countries, South Korea, and other advanced trading partners. The result was a series of market-opening bilateral agreements in specific sectors, such as semiconductors, satellites, computers, supercomputers, and mobile phones.

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The success of these agreements helped build an international understanding that tariffs on high-tech goods are extremely short-sighted. They weaken all parts of an economy, from manufacturing to finance, telecommunications to computer services, and countless other fields. So the United States developed a worldwide approach to fighting such barriers. This effort began by broadening the Semiconductor Agreement with Japan to include the world's other major semiconductor producers: Europe, Taiwan, and South Korea. The agreement was also expanded to address a wider array of issues, including research and development, private-sector cooperation with government, and basic market access.

The days of adversarial trade negotiations in IT goods are giving way to a more cooperative global environment.

These building blocks in turn allowed the Clinton administration to initiate and negotiate the WTO's 1997 Information Technology Agreement (ITA). By 2004, this agreement will have eliminated the tariffs on $600 billion worth of goods, including 95 percent of the world's production of semiconductors, computers, telecommunications equipment, integrated circuits, and other goods associated with the information superhighway. The opportunities thus created—not only for trade, but also for economic development and long-term growth—are extraordinary. High-tech manufacturers can now sell to wider markets, develop new economies of scale, and grow. Last year, the United States produced $13 billion in semiconductor manufacturing equipment and exported $8 billion of it; U.S. makers of semiconductor chips likewise exported nearly half of all their production. For consumers overseas, the removal of tariffs has proven equally important, since it has reduced the cost of the equipment and materials that businesses need to make factories more productive, reach the Internet, find customers, and work in real time with overseas partners.

For the global economy to reap the benefits of free trade in information hardware, producers and consumers need affordable access to advanced telecommunications systems. This is the goal of the third major high-tech trade achievement of the 1990s: the WTO's 1997 Basic Telecommunications Agreement. This pact

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brought to the world the procompetition principles of the 1996 U.S. Telecommunications Act. The agreement now covers 102 WTO members, 95 percent of the nearly $1 trillion a year in international telecommunications trade, and services and technologies from submarine cables to satellites, broadband networks to cellular phones, and business intranets to wireless connections for rural and underserved regions.

The agreement has three substantive dimensions. First, it guarantees market access for telecommunications providers, guaranteeing them the right to offer local, long-distance, and international service through any means of network technology, including the Internet. Next, the agreement ensures that the most efficient and innovative companies can acquire, establish, or hold significant stakes in telecommunications companies around the world. And finally, the agreement commits all participants to a procompetitive regulatory structure, so that former monopoly providers cannot undermine their governments' market-access commitments.

Implementation of the agreement over the last three years has shown its benefits for both developed and developing countries. A global, competitive telecommunications industry is immensely important to some of America's leading exporters. It also helps provide a source of new technologies and modern infrastructure for countries in the developing world.

Moreover, consumers enjoy lower prices as dominant overseas carriers lose their ability to keep rates artificially high. Indeed, rates for international calls have fallen sharply to levels approximating domestic long-distance rates—as low as 5 to 10 cents per minute for calls to Canada and the United Kingdom, or 15 cents a minute for calls to Japan.

The agreement also supports the development of a global telecommunications infrastructure. With broader market access and increased investor stability provided by WTO commitments, new investment in undersea fiber-optic cables may spark a 50-fold increase in capacity by the end of 2001, from levels of mid-1999. Already, in the last five years, traffic flowing over global telecommunications networks has increased tenfold, and with Internet traffic continuing to double every 100 days, the rate of growth is rising.

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LIBERALIZING SERVICES AND DIGITIZING TRADE

THESE THREE AGREEMENTS—TRIPS, the ITA, and the Basic Telecommunications Agreement—provide a foundation in law and policy for a sophisticated international information network. The next step is to make sure that consumers and industries can use this network to their best advantage. This goal implies, above all, the liberalization of consumer services on a broad scale, to include the sectors that can gain the most efficiency from the Internet: financial services, the professions (law, medicine, accounting, architecture, and engineering), audiovisual and media services, retailing, express delivery, and many others. Liberalizing these services will help exporters take advantage of the opportunities created by an increasingly networked global economy; a more open services industry will also create new demand that can itself accelerate investment in and improvement of the information network.

In this regard, the Clinton administration's next priority was negotiation of the WTO's Agreement on Financial Services, finally signed in late 1997. This agreement—covering securities, banking, and insurance services in 102 countries—is fostering the development of financial markets, especially in emerging and developing economies. Many nations had previously begun the process of financial-services liberalization; the 1997 agreement binds these improvements under the WTO's 1994 General Agreement on Trade in Services (GATS), providing secure market access to exporters and choice to consumers. At the same time, through a series of commitments to open markets, the pact has created new opportunities for competitive U.S. financial-services suppliers, who have thus been able to help emerging markets modernize their financial-services systems and improve their infrastructure for trade in goods and services.

The Internet's development perhaps best symbolizes the economic boom of the Clinton era. From fewer than 3 million users in 1994, an estimated 300 million people had gone on-line by the time President Clinton left office. Web-based commerce grew even faster, with the potential to improve productivity in the national economy, make existing industries more efficient, and even create new industries we have not yet imagined.

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The initial goal of Internet trade policy was to prevent tariffs from being imposed on electronic transmissions over the Internet. Success came rapidly, with all WTO members making a political commitment to maintaining duty-free cyberspace at the WTO's second ministerial conference in Geneva in 1998. U.S. trade policymakers have since turned to a broader and longer-term program, whose goals include ensuring that our trading partners do not unduly restrict the development of electronic commerce, guaranteeing that WTO rules do not discriminate against new technologies and methods of trade, according proper application of WTO rules to trade in digital products, and ensuring full protection of intellectual-property rights on the Internet.

By autumn 2000, then, most of the world's governments had committed themselves through a network of WTO agreements to strong intellectual-property protections, open markets for IT products, a sophisticated and competitive telecommunications network, more open services markets, and an Internet free to develop as a medium for commerce. These initiatives addressed each of the Clinton administration's basic trade concerns. But the work remained incomplete. The Clinton team therefore inaugurated in October 2000 a second-generation approach to high-tech trade: the "Networked World" initiative, a six-part effort designed to adapt the international trading system to the digital age. Completing this initiative should be one of the principal trade priorities of the Bush administration.

The "Networked World" program began with the observation that current WTO provisions do not address electronic commerce directly in any meaningful way. E-commerce is still so new that only one free trade pact in the world—the U.S.-Jordan Free Trade Agreement—includes provisions for it. And apart from the 1998 duty-free cyberspace commitment, the WTO is largely a void in this area: although it has held extensive discussions on electronic commerce, no formal rules prevent its members from discriminating against products traveling by wire or satellite.

The WTO should therefore find global consensus on a set of general principles for Internet trade. First, WTO members should commit to technological neutrality, which means ensuring that current WTO agreements and basic WTO concepts of nondiscrimination, national treatment, and most-favored-nation status apply to e-commerce as

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well as to conventional trade. Next, the treatment of digital products must embody a similar principle. The WTO has correctly avoided making a decision on whether to classify products delivered in digital form as services or goods or to create a new category for them. Whatever the ultimate decision, it should not disadvantage digital products in favor of identical, physically delivered goods. For example, a software program, whether downloaded from a Web site or bought on a compact disc in a store, should not be subject to any greater trade restrictions. Finally, WTO member states should commit to regulatory forbearance, so that they avoid regulatory and oversight policies that would constitute trade barriers. The first option should thus be market-based self-regulation. This is not always possible: governments will always have to enforce laws and protect consumers. But the rapid pace of change in technology also means that effective pursuit of legitimate government responsibilities depends on working closely with the private sector.

E-commerce is surging, but the trading system has not caught up.

In the field of intellectual property, the development of the Internet has both heightened the urgency of familiar questions and raised new issues. The Internet enables users to make unlimited copies of all sorts of materials—music, film, multimedia, text, and software—and send them instantaneously to thousands or ultimately even millions of people worldwide. This creates obvious new opportunities for artists, scholars, and innovators; it also raises obvious concerns about potential problems, ranging from massive piracy to hacking into Web sites and altering published work on-line.

These concerns can be addressed effectively only on a global basis. At the least, the response must apply existing international agreements to the Internet, but ultimately it should develop new standards for the on-line environment. Two critical treaties negotiated at the World Intellectual Property Organization are a good starting point. The first agreement addresses computer software and databases, the distribution of copyrighted materials over networks and in tangible formats, legal protections for antipiracy technology, and guarantees for new means of on-line licensing of copyrighted material. The other brings protection for sound recordings into closer accord with the protection

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available for other creative works, such as books, movies, and computer software. The treaties' ratifiers include the United States, most industrialized countries, and some in the developing world. This group still includes only a minority of WTO members, however, and the Bush administration should make universal ratification an early priority.

TAKING THE NEXT STEPS

THE LIBERALIZATION of trade in high-tech goods is also incomplete. The ITA itself misses several important categories of goods, such as radar-navigation equipment and circuit boards, which have long been proposed for inclusion in an ITA II. Furthermore, the agreement as a whole will need to be updated in the coming years as new technologies emerge and as older categories of goods begin to fuse through the development of multimedia technologies.

Today's home computers routinely perform a broad range of tasks beyond the realm of data entry and data processing—functions that include telephone answering, electronic translation, video reproduction, stereo sound, still and video camera input, scanning and copying, faxing, playing DVDs and CD-ROMs, and providing global positioning system data. Similarly, a wide array of peripheral goods is acquiring the capacity to perform tasks for which people used to rely on computers. These devices include personal organizers, phones that convey information about weather, traffic, and news, and even "smart" washing machines and refrigerators.

This transformation raises long-term questions about how to classify technology goods for tariff purposes. Classification is already complex and somewhat arbitrary—the Pentium III microprocessor, for example, is an essential component of many computer systems, but the World Customs Organization has an ongoing debate over whether to classify it as a semiconductor or as a "part" of an "automatic data processing machine." Classification will become even more difficult as new products continue to flood the market. Given that many countries maintain high tariffs on products considered to be consumer electronics, the ITA will need to be widened to include new categories of products and ensure that existing high-tech products do not slip out of the duty-free category.

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Trade policymakers must reexamine the Basic Telecommunications Agreement, which is now almost four years old. The telecommunications industry must first and foremost aim to ensure that its regulators remain committed to the agreement's procompetitive principles. Historic monopolies—such as Nippon Telegraph and Telephone (NTT) in Japan, Telmex in Mexico, China Telecom, British Telecom, and Telkom in South Africa—remain entrenched and powerful in many countries. As the Clinton administration came to an end, U.S. negotiators were engaged in talks with Japan and Mexico, with some important successes, to ensure that the dominant local carriers, NTT and Telmex, did not attempt to evade their WTO responsibilities. Monopoly service providers are not the only impediments to telecommunications liberalization, however. While negotiating with U.S. trading partners, the Clinton administration was also fending off short-sighted proposals in the U.S. Congress to evade commitments on openness to international investment in the American telecommunications sector.

Clinton had to fight off congressional attempts to protect the U.S. telecommunications market.

After ensuring a competitive market, the second goal is broader participation in the Basic Telecommunications Agreement. Some WTO members are not participating at all; others have made a highly limited set of commitments, particularly concerning foreign investment. Canada, Malaysia, India, Thailand, Mexico, South Korea, Indonesia, and others still do not permit majority foreign ownership of telecommunications companies.

Beyond telecommunications, many service sectors worldwide remain protected and closed. The GATS itself implies that market-opening commitments in services are exceptions to a general rule of closed markets. With respect to trade in physical goods, ever since the Kennedy administration, international negotiating rounds have typically begun with an overall commitment to reduce tariffs; governments then seek exceptions for especially sensitive products. By contrast, in services trade negotiations, governments offer liberalization in selected areas but remain free to keep the vast bulk of services sectors off-limits. Services negotiations are now underway at the WTO, with

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trade proposals under consideration in sectors as varied as financial services, travel and tourism, distribution and express delivery, and the professions. GATS should ultimately move from this policy of occasional and limited market-opening to a presumption that open markets are generally desired, with exceptions to be negotiated and noted in the resulting agreements.

Closely linked to the liberalization of technology-related services is the need to reconsider policies that will encourage investment in telecommunications network development. As technological advances lower costs, surging demand strains networks' existing capacities. As a result, there is a long-term need for enormous investment to build networks with broadband capacity and the versatility to respond to increases in market demand.

A central role for the WTO is to encourage an environment conducive to investment in and use of such networks. Useful American precedents are policies that have avoided giving preference to any particular technology or means of delivering services and have promoted competition through enforcement of antitrust laws and the 1996 Telecommunications Act. Trade policy can contribute to creating this international environment, in part by encouraging foreign governments to privatize telecommunications services and open the sector to foreign investment.

OVERCOMING THE DIGITAL DIVIDE

OUTSIDE the trade policy context as strictly defined, new U.S. policies and international agreements must be complemented by practical work to prevent an international digital divide. This work should begin with a sustained commitment to technical assistance and capacity-building. This assistance would help those governments that have committed themselves to competition and market-based economics develop the regulatory capacity and civil service expertise necessary for modern telecommunications policies. It would also help ensure that WTO members can participate fully in the Basic Telecommunications Agreement, the Agreement on Financial Services, and prospective future services liberalization. Finally, assistance would achieve effective intellectual-property protection. These goals are

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fundamental to the capacity-building programs begun during the Clinton administration, which help developing countries gain expertise in IT skills, develop Internet capability, and otherwise take advantage of the opportunities that the networked world offers.

At the same time, the United States can encourage its trading partners to help themselves. Governments in the developing world, for example, can be quick to adopt information technology and thus help spread IT skills and computer literacy throughout their economies. In the commercial field, nations can unilaterally facilitate trade by making greater use of electronic networks for customs clearance, licensing, government procurement, and dissemination of regulations; similar possibilities will emerge for tax regimes, financial policy, environmental monitoring, the law, and other fields.

In this context, the direction of high-tech trade policy in the decades ahead becomes clear. Just as the shape of today's trading system was implied in the first major multilateral trade agreement—the establishment of GATT in 1947—the Clinton administration's foundational high-tech agreements and Networked World initiative have laid a path for a series of further negotiations. This path leads to a highly sophisticated, competitive, and innovative worldwide information economy. Few initiatives are so demanding, but few have such promise.

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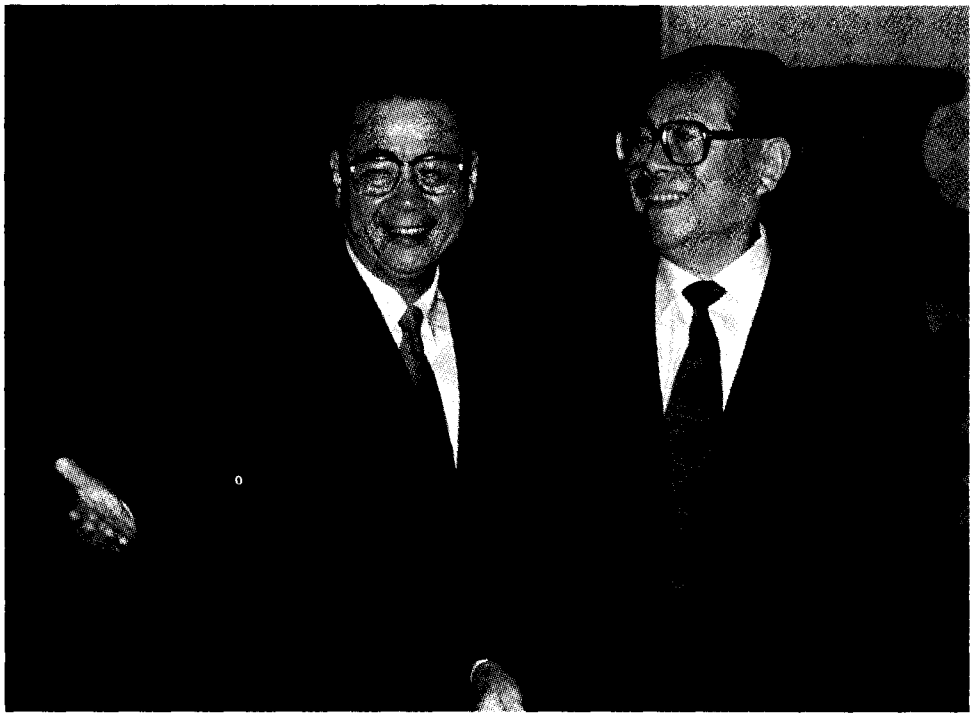
Reviews & Responses



AP/WIDE WORLD PHOTOS

Ushering in the new man: China's Premier Li Peng with President Jiang Zemin, Beijing, 1997

The revelation of Beijing's extralegal, informal means of making decisions may compel the Communist Party regime to change its ways.

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Review Essay

Appealing the Tiananmen Verdict

New Documents from China's Highest Leaders

Lucian W. Pye

The Tiananmen Papers. COMPILED BY ZHANG LIANG (PSEUDONYM), EDITED BY ANDREW J. NATHAN AND PERRY LINK. New York: Public Affairs, 2001, 560 pp. $30.00.

Excerpts from this extraordinary compilation of documents first appeared in the previous issue of this journal ("The Tiananmen Papers," January/February 2001). The papers detail the deliberations of the Chinese leadership in the spring of 1989, leading up to the Tiananmen Square tragedy on June 4. In so doing, *The Tiananmen Papers* grants the reader access to the innermost decision-making processes of one of the world's most secretive governments during an infamous moment in its history. The documents contain the minutes of meetings of the Politburo and its five-person Standing Committee, the highest body of formal political power in China. Even more astonishing are the intimate communications among the top leaders: the gatherings of the eight "elders," the extralegal group of senior communist revolutionaries who at the time constituted ultimate authority in China; some private meetings in the home of Deng Xiaoping, the most influential elder and the chair of the Central Military Commission; and even some of his phone conversations. The various conversations and meetings all dealt with one subject: what to do about the student demonstrators who had taken possession of Tiananmen Square in the spring of 1989.

The huge collection of documents was secretly compiled by a Chinese Communist Party (CCP) member (known to readers only by the pseudonym Zhang Liang) and some fellow collaborators, then

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handed over to Andrew Nathan of Columbia University; Nathan in turn sought the editorial help of Perry Link of Princeton University and Orville Schell of the University of California at Berkeley. The motive of the compilers was to advance political reform in China by forcing open discussion of a subject that has long been taboo. They hoped that the revelations in the documents would shock the CCP into reversing its official line—that the Tiananmen demonstrations were the work of a "small group of counter-revolutionaries." A reversed verdict would acknowledge that the students were patriotic Chinese who sought to advance the modernization of their country through political reform.

The compilers believe that exiled dissidents alone will never change China. Instead, reform must come from within the CCP. It is for this reason that the compilers have bravely chosen to remain in China with their families. They hope that the revelations in these papers—how some stubborn old men were fully informed about the ongoing events but fatally misjudged both the demonstrators and their own power to control them—will convince fair-minded Chinese that the government acted improperly, and that China should now match its economic reforms with serious political reforms. In his introduction, Nathan notes that the publication of *The Tiananmen Papers* will damage the political fortunes of China's current president, Jiang Zemin, and the hard-liner Li Peng, and could benefit a group of more liberal senior leaders, including in particular Zhu Rongji, Li Ruihuan, and six others. Could it be that some in this latter group are now providing shelter for the compilers?

AUTHENTICITY

Nathan and Link worked for years with a number of translators to produce the English-language text, which is just a third the size of the forthcoming Chinese version. Schell added a thorough examination of the critical question of the authenticity of the documents. He begins with a reminder of the long history of forgeries of official Chinese documents and insiders' reports, but he firmly concludes that the contents of *The Tiananmen Papers* are nonetheless genuine. Unfortunately, neither he nor Nathan can share with readers all the evidence they have to support this conclusion. To do so would endanger the compilers.

The appearance of *The Tiananmen Papers* sent a shiver of anticipation and speculation through the Western community of China specialists. What new revelations might they hold? Academic decorum called for a degree of cautious skepticism about such an unexpected mass of new information. Quickly, however, skepticism gave way to acceptance; the papers contained no smoking gun, nothing that contradicted the prevailing interpretation of the events of June 4. If forgery was involved, wouldn't the perpetrators have come up with something new and sensational? Accepting the documents, meanwhile, also called for constraint in publicizing them. The prospect of publishing the papers in the United States raised anxieties that their revelation would set back relations with Beijing.

The initial reaction of the Chinese authorities, however, seemed only to validate the authenticity of the documents. Beijing's assertion that the papers were fake was half-hearted at best, in contrast

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with the standard official Chinese response to any foreign-inspired insult or criticism, which has always been to let loose hyperbolic wails—proclaiming, in one standard phrase, that the action had "hurt the feelings of one billion Chinese." The casual, almost offhand declaration that the documents were forgeries suggested that Beijing hoped to dismiss the whole episode as a tempest in a teapot, something the Chinese people should ignore. Or perhaps it was that the top authorities had not yet decided how the CCP should react. Nonetheless, in preparation for the 2002 16th Party Congress, questions about the verdict on Tiananmen may be raised by those favoring political reforms.

It is far too early to tell whether *The Tiananmen Papers* will have a significant influence on current elite politics in China and the succession game. They do, however, provide a vivid human dimension to what were history-defining events. As Zhang boasts in the preface, "June Fourth was the culmination of the biggest, broadest, longest-lasting, and most influential pro-democracy demonstration anywhere in the world in the twentieth century." He may be right; indeed, the documents show that some 100 million people participated in the 1989 protests in 341 cities. In the years since, we have seen the video footage and heard numerous accounts of the Tiananmen events from the perspectives of participants and journalists. But *The Tiananmen Papers* gives the first direct evidence of exactly how the demonstrations were perceived and understood by their targets—the CCP authorities. The documents put the reader inside Zhongnanhai, the Beijing complex that houses the Party Central Office, the State Council Office, and some top leaders' residences. The reader becomes a witness as China's leaders express their frustrations, debate what should be done, descend into increasing internal division, arrive at critical decisions, and finally try to justify their bloody choices—to themselves as well as to the outside world.

FOR THE RECORD

In plotting their moves, the leadership in Zhongnanhai worked from an abundance of accurate, detailed, and often up-to-the-minute intelligence reports from both domestic and foreign sources. Hourly updates on what the students were planning and doing came in from the various undercover Public Security agents on every university campus and in all major cities. Meanwhile, intelligence flowed in from around the world, giving the Chinese leaders insight into how foreign governments and publics were characterizing their decisions. And the topmost Chinese officials received daily briefings on how the world's leading newspapers were reporting the events in Tiananmen Square.

The logs of the leaders' meetings show evidence of having been edited for smoothness and clarity. The statements and conversations contained within are strikingly articulate, coherent, and well-reasoned—with none of the shorthand, half-sentences, or cryptic jargon so common in everyday talk among busy people. This type of editing process is typical treatment for official Chinese government and CCP documents. So the coherence and polish given to *The Tiananmen Papers* actually bolster the evidence in favor of their veracity.

Li Peng, premier and member of the Politburo Standing Committee, stands out as the acknowledged leader in most

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of the meetings, in which he used rigorous, logical reasoning to advance his policy of treating the protesters with uncompromising firmness. In contrast, CCP General Secretary Zhao Ziyang's appeals for dialogue with the students seem at times to have been guided by wishful thinking, more from his heart than his head.

POLARIZATION

As the crisis mounted, China's leadership became increasingly divided between Zhao's group, who respected the students' patriotism and thus favored dialogue with them, and the hard-liners, who stood firm and eventually called for the use of military force. The reader sees two sides of the hard-line leader Li Peng, whose machinations are essential to understanding the gradual drift toward violent repression. Li is quite forthright in declaring his disagreements with Zhao and advocating a hard line. But he is also sly in his private meetings with Deng. He incites anger in the elder leader—who a decade earlier had boldly spearheaded China's economic modernization—by telling him that the students were personally denouncing him and all that he stood for. Deng, thus manipulated by Li, gradually adopted a harder stance, and most of his colleagues quickly fell in line.

Each side in the internal debate had its blind spots. Zhao passionately called for dialogue with the students, apparently unaware that his appeals often only raised the protesters' expectations and made them more adamant. Li's camp, for its part, was slow to realize that its demands for toughness only strengthened the students' resistance and put the romanticized idea of martyrdom in their heads. Each faction tried to point out the weaknesses of the other, which only made both sides more determined to stick to their initial positions.

Moreover, the leadership's internal divisions soon widened. The leaders vied among themselves in forcefully advocating the position of their chosen camp: first one leader would make a statement; then the next one would note his complete agreement but, in elaborating, would exaggerate the case. Soon a third would chime in and carry the argument even further toward an extreme. This practice might work well in a time of consensus, but the competitive behavior only widened the gap between hard-liners and moderates.

The split within the leadership was crystallized early on by an April 26 editorial in the *People's Daily*. The article bluntly expressed the hard-line position that the "turmoil" was the work of a "small clique of counterrevolutionaries" set on overthrowing the CCP and the socialist system. At a meeting the previous night in Deng's home, Li had prodded Deng into making some tough statements and then quickly called for the drafting of an editorial along these lines. When it ran, the whole country was alerted to study the piece. Zhao Ziyang was away on a state visit to North Korea but received the text by telegraph and wired back his total agreement.

When Zhao returned to Beijing, however, he realized that the editorial had angered the students and strengthened their determination to continue the protests. So he turned around and attacked the article, infuriating conservatives for what they saw as two-faced behavior. At a May 1 meeting of the Politburo

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Standing Committee, Zhao went even further, declaring

> the need to accelerate the reform of our political system, especially the building of a system of socialist democracy based on law. ... Democracy is a worldwide trend, and there is an international counter current against communism and socialism that flies under the banner of democracy and human rights. If the Party doesn't hold up the banner of democracy in our country, someone else will, and we will lose out.

He went on to demand guarantees of freedom of speech and "multiparty cooperation." Li Peng immediately denounced such views and declared his total disagreement with Zhao.

Already in trouble, Zhao then made his position even more politically untenable. In a speech to the directors of the Asian Development Bank (who happened to be meeting in Beijing), he spoke sympathetically of the patriotic students and their calls for needed reforms. The publication of this speech caused confusion in the CCP ranks. Local leaders declared that the party seemed to have "two headquarters" and they did not know which to obey. Drawing renewed vigor from the government's confusion, the students raised the stakes by initiating a hunger strike in Tiananmen Square.

ZHAO'S EXIT

Already incendiary, the standoff grew worse as Soviet President Mikhail Gorbachev's May 15 visit to China approached. Thanks to the students, it was now impossible to receive him in Tiananmen Square. This, to the eight elders, was a matter of national humiliation. Once Gorbachev was in China, Zhao infuriated the elders even more by revealing an important state secret to the Soviet leader: the day after Gorbachev's arrival, Zhao informed him that the CCP had agreed to let Deng make the most important party decisions—even though he had officially stepped down from the Politburo. Hours later, at a Standing Committee evening meeting, Li Peng denounced Zhao for this breach.

The following morning, the committee met at Deng's house. Li had no trouble convincing them that Zhao, who was absent, would have to go, and that martial law was necessary to end the student demonstrations. That evening, the Standing Committee voted 2-2 on martial law, with Zhao's supposed ally Qiao Shi abstaining. On the morning of May 18, the elders met and agreed that martial law was indeed required. Shortly thereafter they again convened, this time to oust Zhao and appoint Jiang Zemin as his replacement.

IN ZHONGNANHAI, OUTSIDE REALITY

The elders' behavior during this course of events was intriguing. The group seemed to believe that whatever they declared should happen, indeed would happen—as though they had magical powers. They assumed that by merely declaring martial law, they could send the students scurrying back to their campuses and restore normalcy to Beijing. They never seemed to consider that the symbolic act of declaring martial law might not be obeyed, or that they might be obliged to back it up with actual force. Similarly, the elders assumed that their order to the army "to clear the Square" would bring instant results. Nobody seriously suggested the possibility of violence.

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Furthermore, the elders never gave any indication of being aware that their actions were extralegal, if not illegal. They took upon themselves the authority to remove and replace Zhao as the country's nominal leader, even though that power supposedly belonged only to the Politburo and the State Council. When the elders met as a group, the old revolutionaries clearly saw themselves as supreme, since it was they who had personally created the People's Republic of China. This confidence spared them even the slightest doubt that anything they decided might not be totally legitimate. Objectively, however, their actions lacked any legal or constitutional basis.

The elders defied not only legal reality but also the excellent intelligence reports they were fed, operating instead as though their own words determined the governing facts. The ideas they repeated to each other became the reality guiding their decisions. So once they had decided that the "turmoil" was caused by members of "a tiny minority" who, as the "black hands behind the scenes," were manipulating the students, they felt it appropriate to ignore whatever the students were demanding.

Yet the idea that all the "turmoil" could be caused by such a small group became increasingly frightening. The elders must have wondered how a small gang of those they called the "scum of China" could wield such powers over the students and citizens, when the CCP itself was unable to move the people to take any counteractions. The tiny group obviously had demonic powers, and hence ruthlessness was appropriate. Thus a group of leaders who had started out with the resolve to end the demonstrations peacefully was led down the path toward the Tiananmen tragedy.

AN UNCERTAIN FUTURE

Among the elders, everyone looked to Deng for all decisions. Yang Shangkun, China's president and Deng's close comrade, did—at times—seek to guide Deng in a more liberal direction but met little success. Usually the elders spoke most forcefully when they thought they were seconding Deng's thoughts. And those thoughts were guided by Li Peng, whose tactic of influencing Deng by telling him that the students were denouncing him personally generally seemed to work.

By the time the decision for martial law was made, Deng had grown discouraged by the vicious criticism of his leadership. Indeed, in the midst of the final deliberations just before the declaration of martial law, Deng called Yang to his house to vent his anger and frustrations:

> [Zhao] was completely uncooperative—he didn't even show any signs of wanting to cooperate. I had to do what I did. ... It is not easy. I am old, and if somebody wants to say I'm senile, fine, confused, fine. ... These last few days I've been thinking, I've never been formally number 1 in the Party, but everybody keeps hanging around me, showing me deference. I have to give the nod on every important decision. I carry too much weight, and that is not good for the Party or the state. I should think about retiring. But how can I, right now? With all this lying before us, how could I retire?

Yang responded, "The people will remember your achievements, Comrade Xiaoping. I also think they will understand and accept your decision on martial law."

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Although the Chinese people may indeed remember Deng's earlier achievements, it is not certain whether they will continue to accept the decisions he made during the Tiananmen crisis. The compilers of *The Tiananmen Papers* have bet their lives that Chinese now reading the full documentary reports of the government's decision-making will conclude that Deng's verdict on the demonstrations should be reversed, and that political reform should recommence. Time will tell whether they are right. But in the meantime, the papers' compilers have exposed the current leadership's reliance on highly informal and essentially extralegal decision-making practices. We should thank them profusely for bravely pulling back the Chinese curtain of secrecy.

Resources for International Practice

THE KOSOVO CONFLICT
A Diplomatic History Through Documents
by Philip E. Auerswald, David P. Auerswald
The 1999 Kosovo conflict brought an unsettling close to the 20th century, representing both a critical test of post-WWII international security structures and a chapter in a human tragedy that is far from concluded. In ***The Kosovo Conflict: A Diplomatic History through Documents***, Philip and David Auerswald have compiled the definitive collection of official, unclassified documents surrounding this event. Though rich in detail, ***The Kosovo Conflict*** places events in context. Each chapter is prefaced with an essay and chronology summarizing that chapter's events. It is an invaluable resource for practitioners, students of politics, and historians.
August 2000, 1000 pp., Hardbound
ISBN: 9041188509, Price: US$ 225.00

FOREIGN POLICY BULLETIN
The Documentary Record of the United States Foreign Policy
Editor: Philip E. Auerswald
2000, Volume 11 (6 issues), ISSN: 1052-7036
Price: US$ 180.00

THE UNITED NATIONS AND A NEW WORLD ORDER FOR A NEW MILLENNIUM
Self-determination, State Succession, and Humanitarian Intervention
by Edward McWhinney
April 2000, 120 pp., Paperback
ISBN: 9041113711, Price: US$ 45.00

THE HISTORY AND FUTURE OF WARFARE
Selections of the Professional Readings in Military Strategy
Published by the Strategic Studies Institute of the U.S. Army War College
Editors: James A. Burger, Harry H. Almond Jr.,
December 1999, 950 pp., Hardbound
ISBN: 9041194622, Price: US$ 185.00

December 2000, 950 pp., Paperback,
ISBN: 9041188649, Price: US$ 45.00

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Review Essay

The Crusade for Free Trade

Evaluating Clinton's International Economic Policy

Jeffrey Frankel

The Wind of the Hundred Days: How Washington Mismanaged Globalization. BY JAGDISH BHAGWATI. Cambridge: MIT Press, 2001, 383 pp. $32.95.

POP ECONOMIST

Many economists despair at the public's frequent misunderstanding of international trade theory—the common failure, for example, to understand the principle of comparative advantage, or the popular notion that imports are bad and exports are good. Many experts have thus given up the attempt to communicate with the general public. But Jagdish Bhagwati, one of the world's most eminent economists, is also one of the most consistent and successful at bringing the lessons of international trade theory—particularly the virtues of free trade—to the public. In Seattle in 1999, for example, he explained why the campaign to bring environmental and labor issues into the World Trade Organization (WTO) was detrimental not only to the trade interests of the rich, but especially to those of the world's poor, who need the opportunities offered by trade to develop their economies and raise their living standards.

The Wind of the Hundred Days, a collection of many of Bhagwati's recent influential newspaper columns, speeches, and articles, is an impressive sequel to his earlier collection of public policy essays, *A Stream of Windows.* Highly readable and enlightening, Bhagwati's new book covers the major policy issues in the international economy over the last few years. Yet it is also packaged as a critique of the Clinton administration's international economic policy—and here its line of argument is idiosyncratic.

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TWO BIRDS, ONE STONE

A recurrent theme in *The Wind of the Hundred Days* is the principle of targets and instruments: given a particular social or economic goal, one must choose the policy instrument that is appropriate for the target. One of Bhagwati's most important early contributions to trade theory (made with V. K. Ramaswami) was to show that rationales for trade barriers are often claims of market failure that, if valid, would be more appropriately addressed by some other specific policy. For example, a desire to protect a natural resource would be optimally met by taxing all use of that resource, not by limiting imports that use that resource. A government's propensity to reach for the trade weapon is due partly to a failure to understand the principle of targets and instruments, and partly to the hidden desire to protect domestic producers.

In his new book Bhagwati explains the principle of targets and instruments with the common-sense proposition that someone who tries to hit two birds with one stone is likely to miss both of them. In one chapter, the two birds are the twin targets of maximizing GDP and protecting the environment. The former should be achieved by trade policy, and the latter by appropriate environmental initiatives. In another chapter, the two birds are free trade and a global social agenda. The former target should be tackled by the WTO, and the latter should be left to other multilateral institutions such as the International Labor Organization, the United Nations Children's Fund, and the United Nations Environment Program—beefed up to whatever extent that is politically possible. Trying to use the WTO to establish both growth-promoting trade rules and environmental or social standards, in contrast, is unlikely to achieve both objectives and more likely to achieve neither.

Even leaving aside the goal of economic growth, conflicting objectives have motivated the demonstrators at Seattle and subsequent trade gatherings. Because of newly important global environmental issues such as greenhouse gas emissions, environmentalists need regulations enforced by multilateral agreements and institutions (along the lines of the Kyoto Protocol, for example), whereas labor unions oppose this kind of infringement on national sovereignty. Thus the two supposed allies in fact disagree about the direction in which global governance should move. A well-designed set of international institutions could achieve a favorable balance of goals within the global marketplace. But an unthinking mass movement to tear down multilateral institutions in general is the wrong instrument for achieving the various targets of the demonstrators.

BHAGWATI'S WRONG INSTRUMENT

Bhagwati wastes no time making clear that the "Washington" in his book's subtitle, "How Washington Mismanaged Globalization," refers to the Clinton administration. Although attacks on the administration from the antiglobalization camp are very common, attacks from the proglobalization side (i.e., Bhagwati's) are less so.

Bhagwati accuses the Clinton White House of not doing enough to advance free trade. He seems to blame Bill Clinton for all political obstacles to trade, such as Congress' refusal to renew the fast-track negotiating authority that he sought.

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At the same time, Bhagwati objects to the administration's support of regional trade agreements, such as the North American Free Trade Agreement (NAFTA) and the proposed Free Trade Area of the Americas (FTAA), because he considers this position inconsistent with the multilateral pursuit of free trade. He also believes that the administration's pursuit of open financial markets in Asia, Mexico, and other emerging economies caused the 1990s crises in these areas. In short, Bhagwati seems to take exception to Clinton's broad strategy of seeking to remove trade and financial barriers whenever possible. But this attack on the administration's international economic policy is itself a poor instrument for the target of advancing free trade ideals.

(NOT SO) FREE TRADE AREAS

Regional trade agreements are Bhagwati's bête noire. As he persistently points out, regional free trade areas (FTAs) should not be confused with free trade, although they often are. He prefers to describe such arrangements as "preferential" or even "discriminatory." These terms make clear that FTAs can distort price incentives to favor the exports of member countries over those of nonmember countries. Instead of creating new trade, FTAs may divert existing trade from nonmembers to less efficient trade with members. This distinction between trade creation and trade diversion is a staple of international-economics textbooks. Although the textbooks say the net effect on economic well-being depends on the specific situation, Bhagwati thinks the net effect is likely to be negative. In the case of NAFTA, for example, Bhagwati worries that much of the resulting 45 percent increase in U.S. exports to Mexico between 1993 and 1996 represented trade diversion—that Mexico really should have purchased those goods from low-cost suppliers elsewhere but instead bought from American producers because of the reduced Mexican tariffs on imports from the north.

Bhagwati also worries that regional initiatives will use up political capital and energies and thus divert momentum from multilateral efforts. To use phrasing that he originally coined and that has since become popular, trade blocks may be "stumbling blocks" to global liberalization rather than "building blocks." But other economists see evidence from recent decades that the political forces behind regional trade arrangements tend to be consistent with those working for free trade generally. Liberalizing trade with a neighbor, they reason, makes it easier to do so with others. In fact, leaving aside an antiglobalization minority in Mexico, Bhagwati is virtually alone in seeing harm in the rapid growth of U.S. exports under NAFTA.

Still, Bhagwati's distaste for regional negotiations is an intellectually respectable position. After all, the United States must fight some of the same political battles (over labor rights and environmental protection, for example) on both regional and global fronts, so it might as well debate them at the multilateral level. But success on a global scale is not always possible. A new multilateral round of negotiations in the WTO may not be politically feasible—either because of traditional clashes between the United States and the European Union or because of newly critical North-South disagreements. If multilateral initiatives break down, and if regional ones such as the FTAA are

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possible, then the United States should go for the latter.

DON'T GO WITH THE FLOW

Free-market purists argue that countries can improve their economies through unfettered capital markets—an argument analogous to the case for free trade. But Bhagwati contends that free capital movements can harm developing economies—and he is not alone in this stance. Indeed, it is striking how many major figures in international economics, including those who stand for globalization and free markets, have expressed strong doubts that international financial markets actually behave in the benign way that economic theory predicts. In the former Soviet bloc, for example, Harvard Professor Jeffrey Sachs' name is practically synonymous with free-market philosophy. Billionaire George Soros has become a symbol of unrestrained financial speculation. Former Federal Reserve Chairman Paul Volcker and former U.S. Treasury Secretaries Lawrence Summers and Robert Rubin are all considered prophets of American-style capitalism, preaching the discipline of the international free market. Yet each of these five figures has stated that financial markets regularly experience excessive volatility and that some government intervention may be justified. Jagdish Bhagwati, apostle of free trade, has joined this distinguished list.

The "wind of the hundred days" in Bhagwati's title refers to the turbulence of the 1997–98 Asian financial crisis, which Bhagwati claims stemmed from U.S. pressure on Asian countries to let in foreign money and financial institutions. He states that "the U.S. administration really blew it" and that Rubin and Summers "may well have presided over the largest man-made disaster in the world economy since Smoot Hawley," referring to the 1930 U.S. tariff that prompted widespread protectionism and thus exacerbated the Great Depression. The Clinton administration's mistake, according to Bhagwati, was its promotion of "imprudent financial liberalization." Attacking what he calls the "Wall Street–Treasury complex" in his widely noted May/June 1998 *Foreign Affairs* article, Bhagwati argues that Wall Street "naturally wished to enlarge its sphere of operations," and that "the U.S. Treasury reflected that lobbying pressure" and "succumb[ed] to the 'ideology' of the market while forgetting that the capital funds market is not as innocuous as goods markets and needs to be monitored and regulated carefully."

Some of this may be true. But financial integration affords clear advantages. Capital-poor countries can finance investment more cheaply by borrowing abroad than by depending solely on domestic savings. International financial markets provide discipline on macroeconomic policy, and international banks and securities dealers are often the only source of competitive pressure on oligopolistic and inefficient domestic banks. Another advantage, at least in theory, is that access to international financial flows allows countries to stabilize their economies in the face of fluctuations. But here is where reality does begin to diverge from theory. International financial markets in fact seem to cause or exacerbate economic fluctuations at least as often as they stabilize them. After the international debt crisis of 1982–89, the Mexican peso crisis of 1994, and the Asian crisis of 1997–98, it

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has become difficult to maintain that financial markets always work as smoothly as economic theory predicts.

Nonetheless, developing countries will probably enjoy higher average growth rates with access to international capital markets than without it, even if the effects of periodic crashes are taken into account. That said, well-targeted government interventions—such as Chilean-style penalties on short-term inflows or high reserve requirements for banks borrowing in foreign currency—can sometimes improve stability without sacrificing the benefits of international capital flows. But short of the unattainable ideal of maintaining perfect macroeconomic and structural policies, or perhaps short of harmful prohibitions against all portfolio capital flows, occasional crises may be an inevitable price of economic development.

WHY ME?

The most surprising aspect of Bhagwati's attack on the Clinton administration is its lack of historical perspective. Both the Reagan and the George H.W. Bush administrations pursued FTAs and open financial markets at least as vigorously as did the Clinton team. The new Bush administration is likely to pursue both goals as well. Why single out the Clinton White House for unique opprobrium?

In 1982, the Reagan administration, frustrated with European resistance to its proposal to launch a new round of multilateral liberalization, reversed the traditional U.S. position against regional trade arrangements and offered to discuss bilateral or regional trade agreements with any willing partners. The outcome was the establishment of the Israel-U.S. FTA, the Canada-U.S. FTA, the negotiation of NAFTA, and preliminary plans for an FTA spanning the entire western hemisphere. The Clinton administration continued this approach, persuading Congress to approve NAFTA in 1993, supporting the Asia-Pacific Economic Cooperation forum, and beginning negotiations for the FTAA. The new Bush administration seems inclined to pick up precisely where Clinton left off.

While pursuing regional liberalization, each of these administrations also pursued multilateral liberalization. The Uruguay Round of negotiations, which eventually established the WTO, was started by the Reagan administration, continued by the first Bush administration, and concluded successfully by the Clinton administration. Although Clinton was denied fast-track authority to negotiate trade treaties, he succeeded in negotiating multilateral single-sector agreements in such areas as information-technology products and telecommunications services. The strategy all along has been to pursue liberalization at both regional and global levels simultaneously, seeking progress on the regional front when the multilateral path is politically infeasible.

Indeed, there are consistently fewer differences on trade policy between Republican and Democratic administrations than there are between the legislative and executive branches of government. Congress, not the White House, has been the primary obstacle to the sort of internationalism that is necessary for effective U.S. leadership of the global economic system.

Given the political opposition on both the right and the left, Clinton was remarkably effective at steering through the shoals to find a path of market-opening

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agreements. Things may be easier for Republican George W. Bush: Congress is less likely to deny him fast-track authority or to block his use of the Treasury's Exchange Stabilization Fund in managing financial crises. But the strategy of liberalization, to be pursued simultaneously at the regional and multilateral levels, will likely be the same under Bush as under his three predecessors. Indeed, one of the few good things about the 2000 election campaign was that the two major candidates shared an internationalist philosophy, whereas the two fringe candidates, Ralph Nader and Pat Buchanan, garnered little support for their isolationist positions.

A similar story applies to international financial policy. The Reagan and Bush Treasuries badgered countries in Asia and elsewhere to remove capital controls and to let in foreign financial institutions. Throughout the 1980s and 1990s, the White House pursued the interests of banks and securities dealers in bilateral discussions. In 1984, the Reagan Treasury bullied Japan into financial liberalization with the Yen/Dollar Agreement, which helped open Japanese financial markets. The Reagan and Bush administrations then applied the same strategy to South Korea and other Asian countries. To be sure, the Clinton Treasury continued along this path. Even after the ravages of the 1997–98 Asian crisis, insufficient progress on opening up to foreign financial institutions was the reason that the Clinton administration gave Premier Zhu Rongji for denying China an agreement on its accession to the WTO in April 1999.

Even the White House's eventual turnaround on this issue does not count as a success, according to Bhagwati, because the economic terms were too tough on China. ("The terms were so totally biased in favor of the United States that it was a no-brainer," he writes in the preface.) It is true that the United States denied China certain accommodations that have been granted to other developing countries, of which China is surely one. More generally, after years of seeking to persuade other countries of the virtues of an open-market system, the United States has been reluctant to "take yes for an answer" and has turned to a strategy of playing "hard to get" in international dealings of all kinds. But Bhagwati's position—that U.S. trade negotiators have been too tough on Mexico and China and have thus achieved unfairly rapid openings of those markets—puts him in a negligible political constituency.

EXCEPTIONS TO THE RULE

Admittedly, the Clinton administration made some mistakes in international economic policy. It is true, as Bhagwati says, that some of its members initially held naive expectations about how much progress could be made by a "get tough" trade policy with China and Japan. As in other administrations, the Clinton White House found it difficult to ignore completely the steel industry's pleas for protection against waves of cheap imports from troubled economies. The U.S. trade representative was unable to prepare adequately for the 1999 WTO ministerial meeting in Seattle. Finally, President Clinton's famous comment at that time to an interviewer—that he would like to see an eventual international agreement to back up social standards with trade sanctions—departed from the carefully thought-out U.S. position. Delegates from poor countries understandably

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interpreted his statement as a message with adverse protectionist implications, which thus helped torpedo the meetings. That most of these actions may have been the product of political pressures does not change the fact that they were mistakes in economic policy.

But these moves are exceptions to the general pattern, far outweighed by the overall record of progress achieved by the Clinton administration's international economic policy. The most notable gains were the successful completion of the Uruguay Round and NAFTA during Clinton's first term, the capable management of the Mexican peso crisis in 1995 and the Asian crisis in 1997–98, the successful negotiation of permanent normal trade relations with China in 2000, and the light management of the dollar throughout both terms. More generally, the administration was remarkably successful at pursuing an economic agenda that brought material gains to virtually all segments of American society. It is more remarkable still that Clinton was able to accomplish so much of his globalization agenda despite a congressional opposition that would have crippled most politicians.

Bhagwati's writings play an important role in helping shape a better trade policy. His points regarding FTAs and financial flows make provocative and instructive reading. But they will probably find little resonance with readers as a verdict on the Clinton administration.

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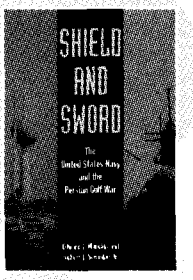

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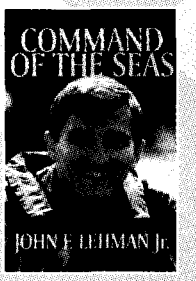

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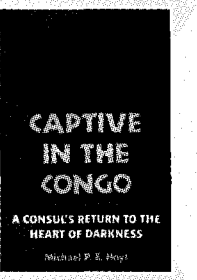

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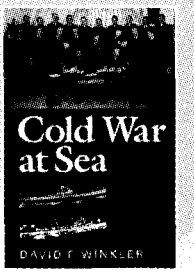

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Recent Books on International Relations

Middle East

L. CARL BROWN

One Palestine, Complete: Jews and Arabs under the British Mandate. BY TOM SEGEV. New York: Metropolitan Books, 2000, 612 pp. $35.00.

Dare one say, in praise, that *One Palestine, Complete* reads like a novel? Big, sprawling, and riveting, it tells the story of Palestine from the last years of World War I to the creation of Israel in 1948. With impressive documentation, especially of Zionist and British sources, this is an exercise in revisionism. Instead of sharply etched heroes and knaves, Segev serves up individual Arab, British, and Jewish protagonists, the great and the less-than-great, with divergent aims and confused intentions. And contrary to conventional Zionist historiography, the state of Israel was achieved not in the face of British resistance but with substantial British support, however erratic, throughout the Mandate period. Segev also discounts the importance of the Holocaust in facilitating statehood. Readers, finding a host of new interpretations and insights, will question many points great and small, but this is the most impressive and readable account of Mandate Palestine since Christopher Sykes's 1965 work, *Crossroads to Israel, 1917–1948.*

Hamas: Political Thought and Practice. BY KHALED HROUB. Washington: Institute for Palestine Studies, 2000, 329 pp. $29.95 (paper, $19.95).

Hamas came into existence in 1987 during the first Palestinian intifada, but its roots go back to the Muslim Brotherhood, created in Egypt in the 1920s and extending from there to Palestine and other Arab countries. Hamas appears differently here than in most Western accounts, which see it as a fanatic body that must be neutralized to realize Israeli-Palestinian peace. Drawing on the wealth of Hamas writings and interviews with Hamas representatives, Hroub depicts an ideology and modus operandi that are coherent and flexible. Hamas has managed to distance itself from the Palestine Liberation Organization and the Palestinian Authority while maintaining Palestinian unity. Not only is it prudent in its relations with the Arab states, but it reaches out to Palestinian Christians. Even the long-term goal of eliminating Israel is encased in a sophisticated concept accepting the possibility of a staged and peaceful transition. Hroub provides limited coverage of Hamas' organization, its members, and even the leadership—but his in-depth

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and dispassionate presentation of Hamas doctrine as it has developed since the 1980s is masterful. A useful appendix offers translations of representative Hamas documents.

The Algerian Civil War, 1990–1998. BY LUIS MARTINEZ. New York: Columbia University Press, 2000, 265 pp. $27.50.
Published earlier in French and now updated, this book offers a convincing interpretation of Algeria's civil war, a conflict that began after the January 1992 military coup canceling elections slated to bring the Front Islamique du Salut (FIS) to power. The author interviewed many Algerians from all walks of life and has woven their words into his account. His findings are many. The Islamists, sensing the rewards of violence, were able to create virtual "emirates" in certain (mainly urban) areas. In the mid-1990s, the military government received the outside financial support, especially from France and the International Monetary Fund, needed to ride out the armed challenge. The government therefore cannot be defeated but is unlikely to crush the more extreme Islamists represented by the Groupement Islamique Armé (GIA). The FIS and its military arm, the Armée Islamique du Salut (AIS), see themselves undercut by the pincers of government and the GIA and have sought an accommodation with the government, as have other political forces. But the military-dominated government and those "emirs" of the GIA are comfortable enough in their culture of violence. They may just let the civil war simmer on.

Eastward to Tartary: Travels in the Balkans, the Middle East, and the Caucasus. BY ROBERT D. KAPLAN. New York: Random House, 2000, 384 pp. $26.95.
Touted as the sequel to Kaplan's *Balkan Ghosts,* which reportedly influenced President Clinton's early policy thinking on the Balkans, *Eastward to Tartary* practices the same style. A fine attention to the meaningful minutiae of daily life is mixed with bold assertions about historical legacies that presumably still shape human behavior in these countries. Kaplan sees fault lines separating the "Europe" of Rome, Catholicism, the Reformation, and the Enlightenment from what lies to the East—Byzantium, Orthodox Christianity, and Islam. More demonstrable is his depiction of how all these countries emerged from the breakup of Ottoman and Soviet empires, which shattered the multinational imperial culture of old. In most cases, the national culture—and the nation-state—remain unachieved. And he suspects that the real *kulturkampf* is within each country, between those tiny, increasingly rich, urban sectors linked to the world economy and the still impoverished and largely unchanged countryside. Like V. S. Naipaul in his pessimism, Niccolo Machiavelli in his realism, and Herodotus in his Eurocentrism, Kaplan is an able practitioner of the travel literature genre.

A Middle East Mosaic: Fragments of Life, Letters and History. BY BERNARD LEWIS. New York: Random House, 2000, 469 pp. $35.00.
What Bernard Lewis has felicitously called a "mosaic" is in fact an encyclopedic survey of the Middle East, from earliest times to today, presented in the words of Middle Easterners themselves or outsiders viewing the Middle East. Organized into 12 different sections, each with a

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succinct introduction, the book treats everything from diplomacy, war, and government to women, wit, and cuisine. The many citations range from the Jewish, Christian, and Muslim scriptures to famous figures throughout the centuries (e.g., Ibn Khaldun, Atatürk, Napoleon) as well as many others known only to specialists. All selections are dated, so the reader can discern continuities or changes over time. Not surprisingly, many of the strangest statements are by outsiders describing Middle Easterners or vice versa. A book that can be read through or dipped into at any point, *A Middle East Mosaic* will surely be mined by professors and public speakers.

Western Hemisphere

KENNETH MAXWELL

Americana: The Americas in the World Around 1850. BY JAMES DUNKERLEY. New York: Verso, 2000, 642 pp. $45.00.

One of the unanticipated benefits of the Cold War's end has been to liberate Western Marxian historians from the straightjacket of orthodoxy and to transform dull "New Left" publishers into sparkling innovators. Verso's new book by James Dunkerley is an immensely rewarding and handsomely produced work that offers a wholly fresh approach to the history of the Americas during the mid-nineteenth century. Although the author provides little in the way of truly global comparative detail (as his subtitle would suggest), he offers a marvelous array of sources that makes his excursions into byways and unanticipated interconnections an exhilarating experience. As he examines religion, culture, political economy, and international relations, he takes each topic as if it were a multifaceted diamond refracting light from a common source. Dunkerley also penetrates the conflicting world-views of immigrants, native populations, slaves, rulers, and adventurers, providing a revealing window on U.S. history by placing it within a hemisphere-wide and Atlantic context. He artfully links all his segments by three court cases: a treason trial from Dublin, a complex Dickensian case before the U.S. Supreme Court, and a case in Bolivia. Each leads him into a transcontinental maze and gives the reader a direct connection to the complexities of the period. Dunkerley's huge cast includes Karl Marx, General Winfield Scott, Charles Darwin, Anthony Trollope, Domingo Faustino Sarmiento, and General Santa Anna. Most unforgettable is the formidable 18-year-old Eliza Lynch, who captivated the portly dictator of Paraguay, General Francisco Solano López, in Paris when he was at the Gare St. Lazare, on his way to visit Napoleon III. All told, an irresistibly good read.

Perpetuating Power: How Mexican Presidents Were Chosen. BY JORGE G. CASTAÑEDA. New York: New Press, 2000, 248 pp. $26.00.

Castañeda, the distinguished political scientist who recently became Mexican President Vicente Fox's foreign minister, describes his insightful book as an "archeology of presidential successions in Mexico." The reader travels inside the "black box" of Mexico's politics during the regime of the Institutional Revolutionary Party, an entrenched political system that the Peruvian novelist Mario

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Vargas Llosa once dubbed the "perfect dictatorship." Central to this system was the well-choreographed, enigmatic, insiders' ritual for choosing presidents, which persisted from the 1930s until last year. It worked for so long because it was both definitive and generous. No one could question the president's decision on his successor, and losers were well rewarded (or just excluded from power). Last July, however, Mexico achieved a genuine transfer of power through the ballot box for the first time. That opportunity resulted in part from the bitter war between former President Ernesto Zedillo and his predecessor Carlos Salinas, which prompted Zedillo to abandon the old ritual and allow the transition to be decided by an election. That story is unfortunately not told here, but Castañeda is well placed to add it to a future edition of this indispensable contribution to Mexican history.

U.S.-Cuban Relations in the 21st Century: A Follow-on Chairman's Report of an Independent Task Force Sponsored by the Council on Foreign Relations. COCHAIRED BY BERNARD W. ARONSON AND WILLIAM D. ROGERS. New York: Council on Foreign Relations Press, 2001, 92 pp. $10.00 (paper).

The Elián González affair showed how intractable and irrational the whole U.S.-Cuban relationship has become, how piecemeal measures intended to improve Cuban-American relations often worsen the situation, and how much U.S. policy toward Cuba has become captive to interest-group pressure. This Council on Foreign Relations report is a classic example of the tinkering approach. Incorporating both conservative and liberal views, it calls for increased dialogue and recommends that issues such as outstanding U.S. property claims be addressed now. It is further hamstrung by the fact that it accepted as a baseline the 1996 Helms-Burton Act, which sustained and tightened the long-standing U.S. embargo on Cuba. It could not therefore confront the central issue of sanctions—the major obstacle to a healthy future U.S.-Cuban relationship and a fool-proof propaganda weapon for Fidel Castro. Yet even with this debilitating concession to Congress' extraterritorial pretensions and Cuban-American political clout, the report is burdened with objections from its members and observers. Most notable is the strenuous dissent by Jesse Helms' spokesperson, Marc Thiessen, who argues that it does not go far enough in isolating the Castro regime. The irony, of course, is that current policy does not substantially cut off what really keeps Castro afloat economically—the remittances from the very Cuban exiles whose representatives in Congress diligently block liberalization of U.S. policy. And U.S.-Cuban immigration agreements further aid Castro by helping remove from Cuba precisely those most willing to oppose him. Facing a contentious issue where courageous leadership has been conspicuously lacking, this report is yet another lost opportunity to shake current policy out of its festering rut.

Cuban Communism (10th revised and updated edition). EDITED BY IRVING LOUIS HOROWITZ AND JAIME SUCHLICKI. New Brunswick: Transaction, 2001, 901 pp. $34.95.

The causes for the dangerous impasse on Cuba are well captured in this thoroughly revised and updated edition of a classic

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manual. There is no handier guide to the Castro regime and the debates swirling around it. This edition contains some sobering but pertinent speculation on Cuba's post-Castro future, but the bottom line for the editors (both fervent opponents of Castro) is that they foresee no change in Castro himself. Furthermore, they do not believe that the sort of "constructive engagement" exemplified by the report reviewed above will shake Castro's faith in socialism. No doubt this view is still held by a majority of Cuban Americans in the United States. Yet the majority of the U.S. population, business interests, and Midwestern farmers looking for export markets now appear to believe that it is time to end the Cold War in the Caribbean. This book should remind them why history is not so quickly banished.

Cuban Miami. BY ROBERT M. LEVINE AND MOISÉS ASÍS. New Brunswick: Rutgers University Press, 2000, 148 pp. $32.00.

It is all too easy to demonize the stereotype of South Florida's Cuban-American community: angry crowds, fervently waved Cuban flags, and mass hysteria let loose by the Elián González affair. This delightful photo essay and commentary is a timely reminder of why Miami's Cubans are so passionate about their homeland. It also provides a useful antidote to the overly simplistic media image of them. Based on interviews with every sector of the exile community, from the first mass waves of refugees during the early 1960s to those who arrived by raft in the late 1990s, this finely illustrated book touches on all aspects of Cuban influence—on politics, cuisine, music, religion, and everyday life. Levine and Asís remind the reader that although Cuban Americans have become one of the most prosperous immigrant groups, this success has come at the price of dislocation, cultural barriers, and discrimination. And if anyone thinks that the politicians and diplomats in Washington can keep Cuban Miami out of the affairs of a post-Castro Cuba, they are living in a dream world.

Latinos and U.S. Foreign Policy: Representing the Homeland? EDITED BY RODOLFO O. DE LA GARZA AND HARRY P. PACHON. Lanham: Rowman & Littlefield, 2000, 172 pp. $55.00 (paper, $22.95).

This spirited and well-documented book responds to the charge that Latino engagement in American foreign policy threatens to undermine core American values and fragment national unity. In fact, the authors write, Latinos are not actively involved in U.S. foreign policy making—and no clear pattern defines the relationship between emigrants and their countries of origin. Like other Americans, Latinos view trade, economic growth, and development as priorities, even though they believe that the United States gives those issues far less attention than it does to drugs. Latinos also believe that the United States places too much emphasis on illegal immigration. Mexico ranks high in importance for Latinos, western Europe far lower; only one-fifth of Hispanic leaders surveyed ranked Asia, the Middle East, and Canada as being very important to the United States. There are also significant differences within Latino communities. Democratization, human rights, and environmental protection, for example, generate more support among Cuban Americans than

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among Mexican-American leaders. Jorge Domínguez argues in his thoughtful conclusion that Cuban Americans' deep political engagement results from their social class, organizational resources, and a commitment to collective action. But he also agrees with the study's main finding: aside from Cuban Americans, most U.S. Latino communities play a modest role in U.S. foreign policy formation—and when they do, they advance the goals of the American government. An important contribution to the ongoing debate over the power of ethnic groups in the making of American foreign policy.

Political and Legal

G. JOHN IKENBERRY

The Origins of Major Wars. BY DALE COPELAND. Ithaca: Cornell University Press, 2000, 336 pp. $45.00.

Theoretically ambitious and historically rich, this book synthesizes realist thinking about the origins of great-power wars. Copeland argues that such wars tend to be preventive actions initiated by leading states fearful of decline. Major war is extraordinarily risky, he asserts, but a dominant state may see militarized conflict as a strategic tool for self-preservation—if it perceives its decline to be severe, and if it faces only one challenger rather than many. Other realist theories that look at the balance of power or hegemonic stability may capture part of the logic of war, but only the understanding of shifting power disparities can make sense of the entire history of great war. In this view, it was not Germany's rise that provoked World War I but its fears of falling behind a potentially powerful Russia. More provocative is Copeland's argument that the same strategic worries led the United States—not the Soviet Union—to initiate the Cold War. The book acknowledges that the rise of nuclear weapons has altered the rational calculation of security-seeking states, but it points out that the Berlin crisis and the Cuban missile crisis stemmed from respective Soviet and American worries over shifts in each country's strategic position. Copeland ably shows how great-power leaders think about and respond to changing power disparities. What is less clear is whether strategic decline means the same thing today as it did in the past, or whether preventive war can ever again be a tool of great-power politics.

Deterrence and Security in the 21st Century: China, Britain, France, and the Enduring Legacy of the Nuclear Revolution. BY AVERY GOLDSTEIN. Stanford: Stanford University Press, 2000, 360 pp. $49.50.

A thoughtful study of Chinese, French, and British security policies during the Cold War. Goldstein argues that the logic that led these powers to acquire nuclear forces—to deter threats to their vital interests—remains at least as relevant, if not more so, after the Cold War. Underpinned by realist balance-of-power theory, the book argues that the inherent uncertainties of the American and Soviet nuclear guarantees, as well as the insecurities derived from political subordination to the two superpowers, made independent nuclear deterrents attractive to these states. Goldstein counters the view that these second-rank countries acquired

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nuclear forces simply as status symbols, arguing instead through fascinating case studies that they had real security utility. Goldstein's discussion of China is most convincing. Faced with severe resource constraints that limited their military options, he argues, Chinese officials believed that a modest nuclear arsenal would provide them a credible deterrent in the absence of a superpower guarantee. And such national deterrence capabilities will continue to attract states attempting to deal with security challenges in today's more strategically complex, multipolar world.

Rights Beyond Borders: The Global Community and the Struggle Over Human Rights. BY ROSEMARY FOOT. New York: Oxford University Press, 2000, 260 pp. $65.00 (paper, $19.95).

In this insightful examination of China's post-1978 engagement with global human rights, Foot observes that Beijing's desire to be seen as a responsible great power has slowly drawn it into a discourse on human rights with the outside world. This process reached a turning point in 1998 with its signing of the International Covenant on Civil and Political Rights. Given the obvious threats that such treaties pose to an authoritarian state, Beijing's signature on all the major United Nations covenants and its hosting of U.N.-sponsored human rights visits have been surprising. Indeed, official conceptions of rights have gradually shifted away from their Marxist-Leninist roots toward established universal notions. Foot argues that the forces at work in China are the same ones that are diffusing human rights norms around the world, as increasingly dense networks of transnational groups team up with U.N. organizations to engage member governments in "rights talk." China has become enmeshed in the global human rights regime even as it has questioned that regime's authority and impartiality. Foot is careful not to claim that these processes have fundamentally changed China's domestic politics, but she does show that Beijing seeks political legitimacy—and is therefore sensitive to outside opinion.

Politics, Markets, and Grand Strategy: Foreign Economic Policies as Strategic Instruments. BY LARS S. SKALNES. Ann Arbor: University of Michigan Press, 2000, 320 pp. $54.50.

Foreign economic policies have long been used as a tool of grand strategy. This book usefully surveys the historical record but offers few surprises. Skalnes maintains that great powers have often used trade and other economic policies since the late nineteenth century to advance their security goals. Prevailing alliance imperatives have shaped state actions; when a great power has needed strong alliances, it has tended to pursue discriminatory economic policies that favor its partners. The author explores this simple hindsight in chapters on German, French, British, and American grand strategy, presenting American post-war reconstruction policies toward Japan and Western Europe as the most celebrated moments of economic policy as "high politics." The book helpfully assesses how preferential trade relations can strengthen ties by altering domestic support for alliances, signaling strategic intentions, and encouraging economic growth to support defense spending. But the historical analysis unfortunately

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ends in 1967, so the reader is left to speculate on the book's relevance to the post–Cold War strategic landscape.

Power and Conflict in the Age of Transparency. EDITED BY BERNARD FINEL AND KRISTIN LORD. New York: St. Martin's, 2000, 371 pp. $49.95.

How has the spread of democracy, data networks, and information technology affected transparency in world politics? The editors note that if wars are indeed caused by misperception of an opponent's strength, transparency should help avert conflict. Essays by Robert Jervis on the 1815 Concert of Europe and Kenneth Shultz on the signaling capacities of modern democracies usefully explore this insight, while other chapters speculate about how new information technologies—such as satellite imagery and the Internet—might change patterns of global conflict and cooperation. Faster and cheaper communications networks and the rise of global media empires may also be speeding up the pace of diplomacy and creating opportunities for new actors on the global stage. In addition, greater transparency might make it easier for states to monitor compliance with international agreements and engage in preventive diplomacy. But the authors acknowledge that more information is not always a blessing; it can in fact confuse government messages and make quiet diplomacy more difficult. The book raises intriguing questions but settles few, missing an opportunity to ask how new information technologies might democratize knowledge and alter the political balance between governments and private groups around the globe.

The Third Force: The Rise of Transnational Civil Society. EDITED BY ANN M. FLORINI. Washington: Carnegie Endowment for International Peace Press, 2000, 295 pp. $40.00 (paper, $19.95).

The rapid growth in transnational advocacy groups has led some scholars to foresee the emergence of a global civil society. This book provides a useful overview of the activities and potential significance of these non-governmental policy networks. Case histories explore the activities of prominent transnational movements focused on such issues as corruption, human rights, land mines, and sustainable development. The book finds that these groups' impact varies dramatically with their influence on policy agendas, hinging primarily on their ability to marshal information and moral authority. Florini resists the view that these groups are merely extensions of domestic policy movements within the rich democracies; even though they are rarely truly global, many of them do extend beyond the West. But she gives only passing treatment to the book's most important and vexing question: how transnational civil society might ultimately help provide global governance. Nor does she satisfactorily explain how disparate groups aggregate into transnational civil society. But she does make clear that existing international institutions, organized around governments and state sovereignty, will increasingly be pressed to make room at the table for these new entities.

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After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars. BY G. JOHN IKENBERRY. Princeton: Princeton University Press, 2001, 281 pp. $55.00 (paper, $19.95).

Why did the United States win the Cold War, and what can the country do now to win the peace? Ikenberry argues that the United States triumphed because it pursued a successful two-track policy after the defeat of Germany and Japan: a realist containment of the Soviet Union combined with the liberal internationalist construction of a democratic club. Ikenberry reviews the Vienna settlement of 1815, the story of Versailles, and the post–World War II order to contend that liberal victors can win the peace by showing "strategic restraint." In effect, these multilateral "institution builders" use their dominance to create international "constitutional orders," the designs of which serve the weak as well as the powerful. He concludes that this tactic, rather than a balance-of-power approach, has best served U.S. interests. With containment now buried, the value of a liberal-democratic partnership among like-minded states still endures. Yet Ikenberry worries that Washington today may not recognize the order that it once created—and thus may miss the opportunities to increase power and well-being for others as well as itself.

For international-relations theorists, this book demonstrates that the liberal-democratic internationalist ship has finally come into port. For decades, realists have mocked liberals for their "idealism" and "utopianism," lamenting that democracy's openness, divisions, and secularism would ultimately weaken the United States in the face of its communist adversaries. But now the liberal argument that democratic regimes can make a dramatic difference in world affairs has finally achieved intellectual respectability, as this fine book so convincingly maintains.

TONY SMITH

Economic, Social, and Environmental

RICHARD N. COOPER

Can Japan Compete? BY MICHAEL E. PORTER, HIROTAKA TAKEUCHI, AND MARIKO SAKAKIBARA. Cambridge: Perseus, 2000, 208 pp. $27.50.

In the late 1980s, many American and European firms doubted whether they could ever seriously compete in cost, quality, and novelty with their leading Japanese counterparts—which were thought to be significantly assisted by the Japanese government. That concern triggered attempts to both emulate Japanese practice and protect against Japanese products. How the tables have turned. Yet readers should not be misled by the book's provocative title. Its authors answer their question resoundingly in the affirmative, but they ask whether Japan has the will to reform both the government's approach to business (less regulation, more support for competition) and corporate management (less emphasis on continuous improvement in all sectors, more attention to strategic planning, specialization, and innovation). Based on a decade's worth of research on Japanese industrial performance, the authors' conclusions strongly contradict the conventional wisdom. In their eyes, heavy government engagement has usually brought failure, or at best mediocrity—

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not success. Successes occurred mainly when Japanese firms came under high competitive pressure, despite occasional government-sponsored cartels. The authors doubt that a distinctive form of Japanese capitalism will emerge to offer an alternative route to commercial success.

The Wind of the Hundred Days: How Washington Mismanaged Globalization. BY JAGDISH N. BHAGWATI. Cambridge: MIT Press, 2001, 372 pp. $32.95.

Keys to Prosperity: Free Markets, Sound Money, and a Bit of Luck. BY RUDI DORNBUSCH. Cambridge: MIT Press, 2000, 350 pp. $27.95.

These books collect some of the popular and policy-oriented essays written by two distinguished academic economists in the 1990s. Each contains over 45 works, including op-ed pieces, congressional testimony, and speeches; the Dornbusch volume also contains his regular pieces for *Business Week*. Both men are excellent expositors, able to convey sound economic reasoning to the nonspecialist. Bhagwati, a leading proponent of trade liberalization within a global framework, focuses mainly on trade policy—usually with closely reasoned argument. Dornbusch focuses mainly on macroeconomic and exchange-rate management—and is given to occasional hyperbole. Despite their selectiveness, the books inevitably reflect the weaknesses of their genre: some repetition of important themes and an occasional out-of-date touch. The excerpts need to be read in the context in which they were written, which is not always provided. Dornbusch enjoys being bold and provocative, which means he can also be egregiously wrong—when, for example, he argued that Italy would not enter the European economic and monetary union in its first round. But both books provide highly stimulating commentary on contemporary issues of enduring interest.

Financial Crises in Emerging Markets: An Essay on Financial Globalization and Fragility. BY ALEXANDRE LAMFALUSSY. New Haven: Yale University Press, 2000, 199 pp. $25.00.

For many years the author headed the Bank for International Settlements, an organization of central banks, before becoming president of the European Monetary Institute, the predecessor to the European Central Bank. He thus had a ringside seat during the world's financial crises of the past two decades. In this short book, he uses that perspective to offer a useful and penetrating analysis of four major international financial crises—Latin America in 1982–83, Mexico in 1994–95, Asia in 1997, and Russia in 1998. He also includes lessons on preventing future crises and combating them when they occur, as they inevitably do. Lamfalussy's extensive experience, seasoned judgment, and accumulated wisdom lead him to ask more questions than he answers. But they are the right questions. For example, he disputes the now-standard advice to developing countries that they should allow their currencies to float. He also cautions against extending the international liberalization of capital markets into a country before its financial system satisfies demanding conditions, and he warns of premature liberalization of capital export by residents. What is needed, he concludes, is a cooperative framework among the world's major countries to deal with future financial crises—but he disappoints in failing to sketch what that framework should be.

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Prosperous Paupers and Other Population Problems. BY NICHOLAS EBERSTADT. New Brunswick: Transaction, 2000, 272 pp. $34.95.

A collection of essays on global demographic and health trends, this book offers an especially interesting section on the former Warsaw Pact countries—where mortality has risen for the past 30 years, both before and after communism's collapse. This rise cannot be attributed solely to inadequate income or poor health care, since longevity has increased dramatically in much poorer countries. And although air pollution and toxic waste bear some responsibility, they cannot explain why males have been disproportionately afflicted. Emphasizing heavy drinking and smoking, Eberstadt suggests that communism fostered a disabling pessimism that was followed by tremendous stress as societies disintegrated in the 1990s. He also offers intriguing chapters on the impending population decline in East Asia. Combined with increasing longevity, sharp declines in birth rates are leading to a marked aging of society—with major implications for labor-force growth and national savings rates. Many children will grow up without siblings or even cousins. China, Hong Kong, South Korea, and Taiwan also suffer from an abnormally high ratio of males to females, suggesting an impending shortage of brides and a surplus of restless young men. Importing brides (e.g., from China) can solve the problem for the smaller countries, but not for China itself.

Avoiding the Apocalypse: The Future of the Two Koreas. BY MARCUS NOLAND. Washington: Institute for International Economics Press, 2000, 431 pp. $22.00 (paper).

One of the most dramatic events of 2000 was the cordial summit of the two Kims of North and South Korea, the fruits of South Korean President Kim Dae Jung's "sunshine policy" that has thawed the half-century-long freeze. Greater economic, cultural, family, and political contact was tentatively agreed on, but no one knows where it will lead. Noland looks ahead to potential unification and to several possible intermediate points. He summarizes well what limited information is available on the reclusive northern hermit nation and analyzes skillfully both the economic benefits and the political risks of opening up the North Korean economy. Drawing on the unification of Germany, he maps out the lessons for South Koreans (and others) should they need to respond quickly to their northern neighbor's collapse. He sees tremendous difficulties in North Korea due to 50 years of systematic mismanagement under communist rule. But imminent collapse is unlikely as long as Pyongyang plays its cards skillfully—as it has been doing—and as long as China fears the unknown alternatives more than the current (albeit unpalatable) regime.

Military, Scientific, and Technological

ELIOT A. COHEN

To Hanoi and Back: The U.S. Air Force and North Vietnam, 1966–1973. BY WAYNE THOMPSON. Washington: Smithsonian Institution Press, 2000, 416 pp. $27.95.

Airpower—to a far greater degree than operations on land or sea—elicits

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overstatement and dogma from advocates and critics. Both sides resort to badly distorted history, either to prove that leaders such as Ho Chi Minh and Saddam Hussein were utterly undone by airpower or that "bombing just improves morale." This meticulous study is therefore all the more praiseworthy. Thompson, a professional historian in the highest sense of the term, closely examines American operations against North Vietnam during the Vietnam War. In addition to a careful combat narrative, he describes the evolution of the command organizations behind the operating forces, the experiences of prisoners of war, and the Lavelle affair (in which an Air Force general exceeded instructions to bomb targets in the North). In its lucid prose, ample data, and above all judicious tone, this work is a model of military history.

Naval Postgraduate School Library. http://web.nps.navy.mil/~library/

One often thinks of the Web as an alternative to a conventional library. That may be true, but the best place to access the Web is often a library's site. A number of military educational institutions (including the service war colleges, the National Defense University, and the Pentagon library) have useful Web pages, but this site is particularly rich. In addition to guiding the reader to the library itself—which has some interesting databases, many of them free—it provides a useful portal to other military sites. Of particular value is the resources page, which can point researchers to all kinds of sites where they can download the correct military graphic for sketching an obstacle zone, peruse a bibliography on de-mining, or find meticulous descriptions of terrorist incidents (by year) in Kyrgyzstan. In other words, a good place to begin research.

Army Relations with Congress: Thick Armor, Dull Sword, Slow Horse. BY STEPHEN K. SCROGGS. Westport: Praeger, 2000, 266 pp. $69.50 (paper, $27.95).

A book's subtitle normally explains what the book is really about. Here it reflects the withering scorn that pervades this densely written study. After serving 20 years as a U.S. Army officer, Scroggs seeks to explain why (in his view) the army has been spectacularly inept in dealing with Congress. Relying on both scholarly literature and extensive interviews, he paints a picture of an organization suffering ills far more serious than a few tongue-tied generals being outmaneuvered by wilier counterparts in the other services. "Naive, trusting arrogance" is the kindest thing he has to say about the army's leaders. The more serious indictment is that the organization is inward-looking and risk-averse. He also examines the transfer of M1A1 tanks to the Marine Corps before the Gulf War, has interesting chapters on the role of military liaison officers in Congress, and discusses army culture. This book is not an easy read (except when it quotes indignant general officers, whose humor is often unintentional). It is nonetheless an analysis that the new secretary of the army should read with care—and alarm.

Trouble Spots: The World Atlas of Strategic Information. BY ANDREW DUNCAN AND MICHAEL OPATOWSKI. New York: Sutton Publishing, 2000, 324 pp. $39.95.

The military business generates more than its share of coffee-table books. This volume, however, offers something more.

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The principal author, Andrew Duncan, worked for many years at the International Institute for Strategic Studies after serving in the British army; his collaborator, Michael Opatowski, is an exceptionally talented graphic designer. As an overall survey of the world's conflicts, with some additional material on global issues such as refugee movements and military technology, their book is remarkably good. The descriptions are concise and factual, but *Trouble Spots'* strongest merit lies in its imaginative graphics and maps, which are colorful and exceptionally well designed. The essays include references to other books as well as Web sites. One hopes that this reference work will be updated year by year.

Betrayal of Trust: The Collapse of Global Public Health. BY LAURIE GARRETT. New York: Hyperion, 2000, 754 pp. $30.00.

This book is a twin, in many ways, of the author's best-selling *The Coming Plague*—interesting, sprawling, heavily anecdotal, and amply footnoted. In the style favored by modern journalists, paragraph and sentence fragments abound; the thread of the argument often disappears in a blizzard of gee-whiz statistics, acronyms, and quotations from interviews with eminent folk of all kinds. Once extracted, however, the message remains an important one: old scourges (tuberculosis and syphilis) are alive and all too well, and newer ones (AIDS, most notably) have yet to abate their force. A whiff of hysteria and hype here, but nonetheless a useful warning that globalization may have a very dark side indeed.

Inside Hitler's High Command. BY GEOFFREY P. MEGARGEE. Lawrence: University Press of Kansas, 2000, 326 pp. $34.95.

The military historian Williamson Murray once remarked that the memoirs of German generals after World War II often purvey the "if the Führer had only listened to me" school of historiography. This well-executed history demolishes such self-exculpatory accounts. In a clear but scholarly analysis of the German high command, Megargee shows that the German general staff, despite flashes of real brilliance, had deep, long-term flaws in such areas as intelligence, logistics, and strategic planning. Hitler made any number of mistakes, but so too did his subordinates. On occasion he even seems to have been more strategically astute than they were—as when he decided to hold the line before Moscow in late 1941 rather than retreat. A solid and important contribution to the study of World War II and German military history, this book also offers a useful assessment of high command in war, a subject often shunted aside for more exhilarating accounts of the battle line. This analysis reminds the reader that it is the drudgery of staff work that often wins and loses wars; it is a tribute to the author's abilities that he can make that fact not only clear but highly interesting.

People's Liberation Army After Next. EDITED BY SUSAN M. PUSKA. Carlisle Barracks: U.S. Army War College Strategic Studies Institute, 2000, 352 pp. Free of charge.

There are roughly two schools of thought about China's People's Liberation Army. One sees a vast, corrupt, cumbersome organization equipped with antiquated hardware, hopelessly if not permanently

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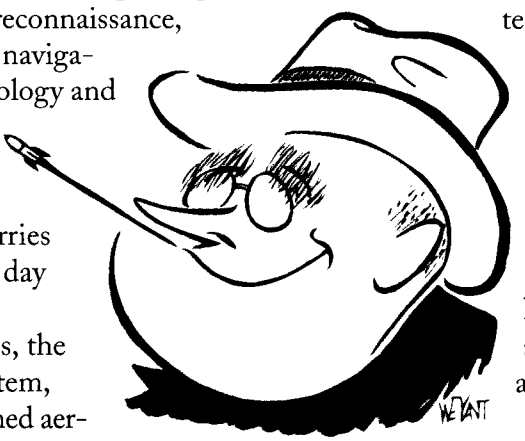
outclassed by the United States. The other sees a military on the way up, aware of its weaknesses, committed to developing its professional officers, and increasingly adroit in its selection of technology and its development of operational concepts. The authors of these essays tend toward the latter view. Several sections stand out. Mark Stokes's discussion of Chinese military space and missile development as it affects Taiwan is particularly thorough; other subjects covered include the PLA air force and maritime forces, logistics and information warfare, and China's reaction to the Kosovo war. A good review, albeit with a relatively short shelf life, but not to be disregarded.

Seapower and Space: From the Dawn of the Missile Age to Net-Centric Warfare. BY NORMAN FRIEDMAN. Annapolis: Naval Institute Press, 2000, 384 pp. $42.50.

Friedman, an appallingly prolific author, is also a gifted writer about matters technological. Even if large swaths of this book read like excerpts from American and Russian space-hardware catalogues, the sweep is interesting. Space technology played a far greater role in shaping naval warfare earlier than did its counterparts on land or at sea. From their beginnings in the 1960s, satellite reconnaissance, communications, and navigation shaped the technology and operational concepts of both the United States and the Soviet Union. The author carries the tale to the present day with discussions of antisatellite operations, the global positioning system, and the use of unmanned aerial vehicles as partial substitutes for space-based systems. A collection of interesting tales—once one cuts through the acronyms, systems specifications, and buzzwords of the day.



The United States

PHILIP ZELIKOW

FDR: The War President, 1940–1943. BY KENNETH S. DAVIS. New York: Random House, 2000, 848 pp. $39.95.

This is the long-awaited fifth volume of Davis' life of Roosevelt. There will not be a sixth, as Davis passed away in 1999, but the achievement cemented by this book is monumental. Calling himself a "hero-needful author," Davis frankly confesses his admiration for F.D.R. but nonetheless remains cold-eyed about "so multilayered, devious, and secretive a role-player." American decision-making at the pivot of world history, 1940 to 1942, is masterfully depicted in all its human detail. What stands out is Roosevelt's remarkable capacity to comprehend the bewildering interactions of global power—even as he repeatedly seemed to turn away and attempt to escape from the consequences of this comprehension. Like his country, F.D.R. was far from single-minded in these epic years. But he was willing and able to think and act strategically.

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A Life in the 20th Century: Innocent Beginnings, 1917–1950. BY ARTHUR M. SCHLESINGER, JR. New York: Houghton Mifflin, 2000, 684 pp. $28.95.

This is the first volume of the memoirs of a renowned historian and influential kibitzer on government. Although his historical work is given its due, this is above all the story of a young New Dealer caught up in and pushed about by the ripples of World War II. Schlesinger's America seems rather small, consisting of a few hundred interesting people that seem destined for later fame. Schlesinger comes across as a brilliant and bumptious youth in this insular and attractive set, populated largely by other men and women of letters. Even the politicians read. The battles he witnesses, especially against isolationists and communists, are struggles of ideas. These memories are also a tonic. Attributing the term to Ambassador Charles Bohlen, Schlesinger warns about the danger of "hindmyopia"—the "refusal to see the specific circumstances, the particular pressures, the full context, that shaped decisions." Above all, Schlesinger's book provides an excellent antidote for just such "hindmyopia" about the travails of the generation shaped by World War II.

Henry M. Jackson: A Life in Politics. BY ROBERT G. KAUFMAN. Seattle: University of Washington Press, 2000, 548 pp. $30.00.

The Cold War was an age of Jackson—Senator Henry M. "Scoop" Jackson. It is intriguing to read this book alongside Schlesinger's memoir. As a young member of Congress in the 1940s, Jackson's worldview was very close to that of Schlesinger, and he distilled those views into a creed for 40 years of political action. A bit older than Schlesinger, much less urbane, and far more ascetic, Jackson never wavered from being both a New Dealer and a fervent anticommunist. By the 1970s, however, that rigid sense of identity left Jackson more and more embattled within his Democratic Party. One ironic legacy was that this lifelong Democrat became an intellectual godfather for the Republican foreign policy elite that would follow Ronald Reagan, as illustrated by the careers of Jackson staffers such as Richard Perle, Jeane Kirkpatrick, John Lehman, and Elliott Abrams. This is an admiring biography, but that should not surprise the reader. Those who knew Jackson well found it easy to admire his honorable consistency—even if they disagreed with his politics.

The Making of NAFTA: How the Deal Was Done. BY MAXWELL A. CAMERON AND BRIAN W. TOMLIN. Ithaca: Cornell University Press, 2000, 258 pp. $35.00.

Conflict Amid Consensus in American Trade Policy. BY MARTHA L. GIBSON. Washington: Georgetown University Press, 2000, 213 pp. $55.00.

Although other books have done more on the work to gain congressional approval for the North American Free Trade Agreement in 1993, Cameron and Tomlin have written the best book so far on the substantive negotiations themselves, which were almost entirely conducted during the Bush administration. The American team was constrained by Congress and interest groups, but the constraints paradoxically enhanced its negotiating power against the disciplined Mexican team that badly wanted an agreement. Yet the Mexicans were so

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disciplined and committed because they were so *un*representative of the Mexican institutions that they hoped NAFTA would transform.

The Gibson book, in contrast, tries to reconstruct the fluctuating areas of partisan agreement and conflict over trade within Congress, but the author understandably has trouble finding a very usable pattern. Both books agree on the theoretical power of analyzing trade issues as multilevel games, at once both international and domestic. But the theoretical framework does not do much to explain how the games will play out. Gibson writes, "The nested-games or any multilevel framework, then, should be viewed as a heuristic tool that complements research at more finite levels." Indeed.

Western Europe

STANLEY HOFFMANN

The Dynamics of Global Dominance: European Overseas Empires, 1415–1980. BY DAVID ABERNETHY. New Haven: Yale University Press, 2001, 544 pp. $35.00.

The colossal European attempt at global dominance through imperialism has been studied piecemeal, but overall evaluations have remained few. Abernethy has now produced the most comprehensive account since Michael Doyle's *Empires,* focusing on how European empires reshaped the economies, social institutions, cultural patterns, and values of their subjects. He describes imperialism as the result of a triple assault—from strong-willed states, profit-seeking individuals and companies, and churches and missionaries—that only western Europe could launch. Interstate rivalries and international forces, however, also played a central role in imperial conquest.

Abernethy's systematic and balanced assessment highlights both the benefits and the evils of colonial rule. He presents a theory based on an empirical examination of empires and their five phases: expansion, contraction, expansion again after 1824, unstable equilibrium from 1914 to 1939, and final contraction. In his view, expansion resulted from developments in Europe, contraction from developments in the colonies. Abernethy also neatly analyzes the institutions and techniques of imperial control as well as the weaknesses of the colonized countries, such as collaboration and the "psychology of self-abasement" that played into European hands and stymied local nationalism. Among the forces that led to independence was war between the European powers, which fostered colonial protest movements and weakened their imperial masters. In fact, "victory in war often precipitated imperial decline," the author writes, as the colonizers' attempts to assert their authority and turn back the clock fostered resistance and rebellion. Abernethy tops off his work by listing the European political and economic legacies that shaped the fate of the newly liberated colonies. An eminently readable, masterly, and sensible book.

The Third Reich: A New History. BY MICHAEL BURLEIGH. New York: Hill & Wang, 2000, 965 pp. $40.00.

This exemplary history proves that brilliant historians can still enlighten their readers—even when the facts are familiar. What distinguishes Burleigh is his purpose. His story is about not just a horrible

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historical episode but a "political religion" that led to an advanced society's moral breakdown and "moral neobarbarism" across Europe and Russia. Burleigh outright rejects separating fact from judgment and proudly defends the human values that Hitlerism tried to destroy. Indeed, his very indignation and uninhibited style enhance the book's appeal. He wisely starts the story in 1914, when many Germans citizens abandoned "the business of thinking for themselves." With formidable documentation, the author demonstrates how the triumph of police terror over the rule of law in 1933 formed the basis of all the evils that followed—including policies toward Jews, eugenics and euthanasia, and occupation in the rest of Europe. Although Burleigh skimps somewhat on the issue of public acquiescence (and enthusiasm) before the war, he exhaustively examines German resistance to Hitler. Many of its members may not have been good democrats, he concludes, but they all sought to restore the rule of law. This account gives Hitler and the war less attention than do other versions, but *The Third Reich* unflinchingly keeps the reader's mind on the essentials.

The Political Mobilization of the European Left, 1860–1980. BY STEFANO BARTOLINI. New York: Cambridge University Press, 2000, 637 pp. $69.95.

Armed with charts and masses of data, Bartolini has produced a colossal study of the relations among European labor parties and unions, governments, and bourgeois interests; the role of peasants and religious groups; and the complex split between socialists and communists. He argues that the rigid class identity (or "cleavage") of workers became ideologically hostile to the state, with socialism as a final step in the "mass nationalization and integration of the lower classes in the national political order." In this process, the scope of political representation and citizenship proved far more important than economic development and industrialization. He concludes by arguing that the class cleavage is now in decline, largely because of changes in the social structure. Bartolini's erudition, mastery of details, awareness of national differences, and virtuosity in explaining problematic cases are astounding. But it is arguable whether even such a clearly written social-science study could throw more light on this subject than less "scientific" but more historically grounded studies. Indeed, the latter might better convey the distinctive flavors of the movements and nations considered—and be more readable.

The Federal Future of Europe: From the European Community to the European Union. BY DUSAN SIDJANSKI. Ann Arbor: University of Michigan Press, 2000, 462 pp. $65.00.

Federalism and European Union: The Building of Europe, 1950–2000. BY MICHAEL BURGESS. New York: Routledge, 2000, 290 pp. $90.00 (paper, $29.99).

The European Union's disappointing summit last December underlined how much European integration is caught in conflicting drives and aspirations. The EU's functional scope is broader than ever, thanks to monetary union and the new move toward a rapid reaction force. Its planned enlargement will extend its reach to the whole continent. But its system of governance is too Byzantine

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to function well, too obscure to be understood by its citizens, and too paralyzed by antagonisms. Neither the potential new members nor the United Kingdom seem willing to move toward a more federal structure. The tensions between the smaller and the larger states are acute, and the Franco-German "axis" is cracked.

In these two works, Sidjanski and Burgess focus on the debate between "federalists" and "intergovernmentalists" that has raged for decades. Burgess concerns himself with theories of European integration, trying to measure how far federalism has been achieved. But his conclusion—that the EU has both confederal and federal elements, and these two schemes actually share many common features—is a somewhat disappointing cop-out. (These elements in fact tend to lead in different directions, as the United States found out in its early years.) Sidjanski, in contrast, provides an eminently clear account of the EU's origins and development, arguing that federalism is both Europe's future and the best way to contain excessive nationalism. He devotes much space to the Balkan tragedies, which Burgess barely mentions, but his focus leads him into a different kind of trap. He analyzes the EU's evolution as a troubled yet necessary march toward federalism but fails to ask what it would take to build a European public space—and whether there can be a European federation without a European "people." He seems torn between his faith and his awareness of the obstacles to federation.

A European Security Architecture After the Cold War: Questions of Legitimacy. BY GÜLNUR AYBET. New York: St. Martin's, 2000, 316 pp. $69.95.

Aybet attempts to evaluate not just the new architecture of European security but its legitimacy, examining three distinct phases from 1990 to 1995. In 1990–91, the Western security community used institutions such as the Conference for Security and Cooperation in Europe to expand and promote the values forged in the Cold War. During the Persian Gulf War, it proceeded to move from collective defense to collective security. Finally, the Yugoslav wars forced the West to test its values and institutions. Aybet also traces NATO's increasing dominance in the institutional context. She contends that the Western security community has achieved legitimacy through a "Gramscian hegemony," which in turn is bolstered by interlocking institutions and the "consent and adoration of Eastern European dissidents." In other words, the new European security culture is essentially Western rather than truly pan-European. Whether this argument adds to her otherwise incisive study is unclear, but a subsequent volume is certainly needed to go beyond 1995 and assess NATO's Kosovo intervention—when the U.N. was excluded and new questions of legitimacy were raised—as well as Europe's efforts at creating its own rapid reaction force.

Another Country: German Intellectuals, Unification and National Identity. BY JAN-WERNER MÜLLER. New Haven: Yale University Press, 2000, 310 pp. $27.50.

Europe's intellectuals have played a prominent role as public educators since the Enlightenment. Intellectual discourse has often remained inseparable from a

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nation's past and present. This lucid and empathetic account examines West German intellectuals and their role in the debates over reunification and national identity. From 1945 to 1989, Müller writes, intellectuals attempted to engage the public about Germany's past; one famous example was the 1986 "historians' debate" started by the conservative writer Ernst Nolte and the liberal theorist Jürgen Habermas. But unification opened new questions, causing the author Günter Grass, among others, to fear that reunification would force Germany to lose its valuable "Holocaust identity" and forget its troubled past. Habermas, in contrast, championed a "constitutional patriotism" that represented a major shift away from ethnic nationalism and state worship. The writer Martin Walser took a different course, advocating trust in German culture and repudiation of collective guilt. Müller concludes that the divide between the Left (which wants to exorcise Germany of its past "exceptionalism") and the Right (which sees "normality" as a goad to the pursuit of national interests) remains profound. But he concludes that Germany's intellectuals have indeed helped establish and preserve a "robustly liberal and democratic" political culture.

The Great War and the Twentieth Century. EDITED BY JAY WINTER, GEOFFREY PARKER, AND MARY R. HABECK. New Haven: Yale University Press, 2001, 356 pp. $30.00.

This remarkable addition to the literature on World War I offers original and provocative analyses of the war's most important aspects. Michael Howard starts the book by restating the orthodox view that the conflict was a necessary war aimed at preventing Germany's domination of the continent. William Fuller, meanwhile, suggests that the Allies provided Russia far too little assistance, and that Russia's 1917 defeat—which led to the Bolshevik Revolution and later to Hitler's rabid revanchism—wrought perhaps even worse consequences than a German victory would have. Mary Habeck's essay on the soldiers' reactions to the new realities of technological warfare is superb, while Gerald Feldman shows how Germany's massive regulation and controls—which took economic mobilization out of the hands of civilians—hurt its war effort. John Horne's piece on labor movements argues that socialists in Germany and in the West turned to pacifism, not revolution, as the war dragged on. Other outstanding chapters examine the war's impact on colonialism, the diplomacy of the 1920s, America's return to isolationism, and the rise of national myths about the war. An excellent and thought-provoking volume.

Eastern Europe and Former Soviet Republics

ROBERT LEGVOLD

East Central Europe in the Modern World. BY ANDREW C. JANOS. Stanford: Stanford University Press, 2000, 488 pp. $65.00.

In an immense yet utterly lucid argument, Janos attempts to explain fundamental political outcomes in east-central Europe from the early nineteenth century to the present. For the smallish states of this re-

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gion (from Albania to Poland), geography is destiny. Their corrupted move toward liberalism in the second half of the nineteenth century, the failure of liberalism and the rise of fascism in the interwar period, the ascent of communism, and now the renewed experiment with liberalism all reflect external influence far more than internal characteristics. Theirs is the "politics of backwardness," driven by perennially ill-fated efforts to close the economic gap between Europe's advanced "core" and its disadvantaged "periphery," a gap that is larger today than ever before. Culture plays a role—but only as a third-level filter. So stark a thesis requires an incisive reading of history, and Janos' reading indeed is both incisive and extensive. Applied to the present, however, his thesis turns watery. One is not sure what causes what: whether change, good or bad, owes to an externally imposed Western model or whether the model is only as potent as (half-sketched) forces within these societies allow it to be.

Why Angels Fall: A Journey Through Orthodox Europe from Byzantium to Kosovo. BY VICTORIA CLARK. New York: St. Martin's, 2000, 460 pp. $29.95.

Clark bases her book on a suspicion that Samuel Huntington's theme in *The Clash of Civilizations* is correct: the societies of Eastern Orthodox Christianity are a civilization apart. She then proves it to herself by traveling from monastery to monastery, country by country, from Cyprus to Russia. (Only Belarus and Ukraine are not on her itinerary.) Her conversations with monks, nuns, and prelates provide a fascinating glimpse into a world-view different from—and often at odds with—that of the West. Her well-told tale, greatly enriched by an impressive admixture of history, underscores the Orthodox sense of rectitude and its retained hostility toward the secularized West. But the reader is put on guard by Clark's dogged pursuit of the negative—the blood thirst of the Serb clergy, the anti-Hungarian nationalism of their Transylvanian counterparts, the antisemitism in the ranks of the Russian Church, and the strange biases and provincialism of nearly all with whom she spoke. Nor is her case helped by an entertaining but often flippant writing style.

My Six Years With Gorbachev. BY ANATOLY CHERNYAEV. University Park: Pennsylvania State University Press, 2000, 437 pp. $32.50.

Of the many memoirs produced by Gorbachev and those around him, this one rings truest and says the most—partly because Chernyaev quotes at length from his original notes and internal memoranda, and partly because the author's integrity and frankness emerge from the text itself. Although Chernyaev was primarily Gorbachev's senior foreign policy adviser, he was also drawn to a surprising degree into the key deliberations on domestic matters. Still deeply loyal to Gorbachev, he nonetheless manages to stand outside their relationship and judge him candidly, with stunning insight. Apart from the invaluable detail that the author adds on key events, his account seems to capture Gorbachev as a leader better than any other. He describes a man both idealistic yet politically calculating, with a mix of courage and timidity, egotistical but concerned more with his historical role than his person, charming and persuasive but equally often windy and ineffective, sometimes dismissive—even

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nasty—to his subordinates (including Chernyaev), but harder on himself.

Midnight Diaries. BY BORIS YELTSIN. New York: PublicAffairs, 2000, 398 pp. $26.00.

One comes away from this memoir of Yeltsin's last three years in power wondering whether he was this cunning or simply naive. At times he is startlingly frank, as when he confesses how close he came to sabotaging the 1996 elections or how baldly he and his team covered up his heart condition during the elections. At other times he appears to be either entirely out of touch or dissembling—for example, when discussing his erratic sacking of prime ministers or his strange view of their governments as entities divorced from his presidency. Sometimes he simply seems to be in denial—for example, when it comes to the corruption of those around him—or conveniently forgetful, especially when it comes to his own celebrated personal lapses. The book is still worth reading, not only because it adds useful information (a good deal of which need not be discounted) but because it yields further insight into the man, however distorted.

The Ukrainians: Unexpected Nation. BY ANDREW WILSON. New Haven: Yale University Press, 2000, 366 pp. $29.95.

Wilson treads a middle path between two schools: those historians determined to prove not only that Ukraine is ancient but that it has primary claim to Kievan Rus, and those who would deny Ukraine anything other than an inferior, derivative history in Russia's shadow. The roots of the "Ukrainian idea" are old indeed, he argues, but its content and evolution derive as much from being a part of the shared experience of empire (Lithuanian, Polish, and particularly Russian) as from a free-standing historical identity. He weaves his story from an ambitious blending of political, religious, and cultural history, much of it drawn from Ukrainian-language sources. He handles the many historical controversies evenhandedly and finishes by reflecting on the Russian factor in Ukraine's long, slow process of invention. And he argues for the importance of Ukraine's safe passage to secure nationhood—a process he clearly does not think is being helped by its current political elite.

Hang Separately: Cooperative Security Between the United States and Russia, 1985–1994. BY LEON V. SIGAL. New York: Century Foundation Press, 2000, 397 pp. $24.95.

Sigal's title refers to the absence of cooperative security between the United States and Russia, said to make the world a far more dangerous place than it need be. In contrast to the general tendency to pat the earlier Bush administration on the back for its skillful handling of German reunification and the Soviet collapse, Sigal thinks George H.W. Bush missed a major chance to reduce nuclear danger and promote Russian democracy. The failure—and the Clinton administration's only marginally better record—occurred because Washington was neither willing to run small risks to secure radical changes in the bilateral nuclear relationship nor ready to provide the needed material assistance to Russian political and economic reform. Why? Because of the "realist" view of the world subscribed to by senior U.S. policymakers, which biased them toward coercing concessions

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rather than inducing positive change, and the domestic politics that reinforced this tendency. Much as one may sympathize with Sigal's lament, however, the hard (and unanswered) question is, so then what?

Making Sense of War: The Second World War and the Fate of the Bolshevik Revolution. BY AMIR WEINER. Princeton: Princeton University Press, 2000, 416 pp. $39.50.

With some justification, Weiner contends that World War II is the great, unexplored threshold that divides one Soviet Union from the other. Its tragic weight bore on everyone (whether devotee, dissenter, or victim of the regime), rephrased the meaning of the Soviet experience, and redid the basis by which the system and different segments of society found legitimacy. His slice of the story focuses on the nature, process, and ontology of the regime's prewar, wartime, and postwar purges. He does this by tracing in painstaking, revealing detail the way these phenomena unfolded in Vinnytsia, a rural region at the western edge of pre-1939 Ukraine. Under the impact of Nazi occupation there, the currents and crosscurrents of partisan warfare, nationalist insurgency, and ethnic uncertainty flowed with special strength, as did the complex, severe process of "purification" that followed.

Asia and Pacific

LUCIAN W. PYE

From Third World to First: The Singapore Story, 1965–2000. BY LEE KUAN YEW. New York: HarperCollins, 2000, 729 pp. $35.00.

In this second volume of his memoirs, Lee Kuan Yew begins by telling how he and a small group of Singaporean leaders banded together and, by "getting the basics right," transformed a poor and polyglot city into an astonishingly successful modern nation. Lee tells in crisp and polished prose how this group identified the key problems of nation-building, analyzed what needed to be done, and then—with uncompromising determination—did it. While asserting his respect for authoritarian efficiency, Lee also seems to have mellowed in his championing of "Asian values" and criticizing of the West's attachment to the rights of the individual. In the second half of the book, Lee recounts his experiences as confidant of and counselor to world leaders. He hosted six American presidents in Istana, his official residence, and he regularly visited the White House. During the Vietnam War, American presidents seemed to welcome Lee's pep talks to "stick it out." The easy informality of his conversations over lunch and dinner made him a valued interlocutor who knew how to "get it right" in world politics. Throughout this work, Lee's analysis of political problems displays the workings of a brilliant lawyer's mind unencumbered by lawyer's jargon. He also demonstrates a genius for reading human character. His forthright evaluations of the personalities of both his Singaporean colleagues and a host of foreign leaders provide a degree of candor rare in the memoirs of political leaders.

The Making of Modern Japan. BY MARIUS B. JANSEN. Cambridge: Harvard University Press, 2000, 871 pp. $35.00.

This magisterial work has all the details one would want in a reference work, but

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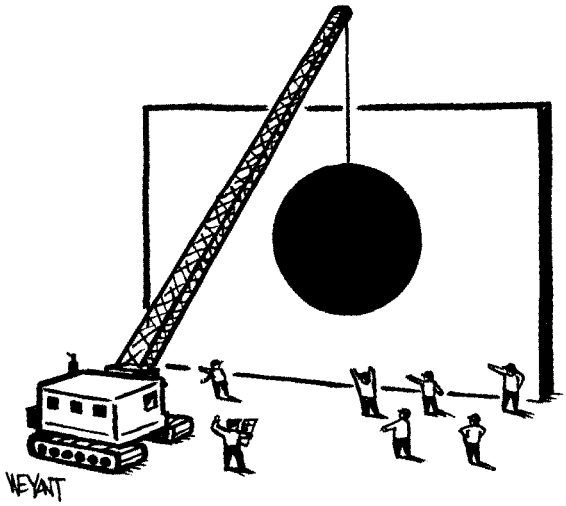

the mature reflections of a lifelong Japan scholar at Princeton make it a pleasure to read. Last year, the Japanese recognized Jansen's learning by decreeing him a "National Treasure: A Person of Cultural Merit." (Jansen, who died just as the book was published, is the only foreigner ever to have been so honored.) Nearly half of the book is devoted to the Tokugawa period, when Japan became an integrated feudal state and put in place many of the fundamentals essential for modern nation-building. Jansen answers the question of whether the Meiji Restoration destined Japan to authoritarianism by detailing the interwar period, when Japan went far in the liberal, democratic direction. At every turn, Jansen looks behind the political stage to examine cultural and social developments. He avoids abstract theorizing by recounting the experiences of specific Japanese individuals, giving the story a strong human dimension. This authoritative work goes up to the present and ends with Japan's current economic problems.

Same Bed, Different Dreams: Managing U.S.-China Relations, 1989–2000. BY DAVID M. LAMPTON. Berkeley: University of California Press, 2001, 463 pp. $35.00.

Engaging China: The Management of an Emerging Power. EDITED BY ALASTAIR IAIN JOHNSTON AND ROBERT S. ROSS. New York: Routledge, 1999, 272 pp. $100.00 (paper, $29.99).

Lampton has written a thoughtful, vividly detailed analysis of post-1989 relations between America and China that does not belittle the problems separating the two countries. In particular, he spells out the differing perspectives and basic orientations that make for misunderstandings. Most insightful is his investigation of how the myths and ideals of the two societies complicate the relationship. He introduces a strong human dimension with his in-depth profiles of the principal actors, while seven guidelines for the policymakers of both countries conclude the book.

The Johnson-Ross edited volume, in contrast, is premised on the proposition that any emerging great power is likely to cause trouble in world politics, and that China is one such power. Asia will therefore have to figure out how best to engage Beijing. In the introductory essay, Randall Schweller provides a sophisticated review of the history of the problems posed by emerging new powers. Separate authors then examine the ways in which the Koreas, Taiwan, Indonesia, Singapore, Malaysia, Japan, the United States, and major international institutions have each separately sought to engage China. The editors conclude the study by ana-

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lyzing the differences in these various approaches, searching for the best ways to manage relations with China. Although the authors acknowledge that Chinese domestic developments will be a large factor, they generally imply that the chance of a peaceful emergence of China depends on the wisdom and skills of the United States and of China's neighbors.

Civil Islam: Muslims and Democratization in Indonesia. BY ROBERT W. HEFNER. Princeton: Princeton University Press, 2000, 286 pp. $55.00 (paper, $17.95).

This thoughtful book argues that Indonesia illustrates the compatibility of democracy and Islamic culture. Hefner examines Indonesia's social and cultural patterns, finding that its tolerance and courteous respect for others meet the required standards of a democratic civil society. He traces how the two Muslim parties, Masyumi and Nahdlatul Ulama, championed Islamic ideals while coping with the authoritarian Sukarno and Suharto regimes. Particularly enlightening is his analysis of the variety of views held by Indonesian Muslims. He shows how Muslim social and religious leaders developed behind-the-scenes political ideas that could serve as the foundations for a pluralistic democracy. But whereas Islam provided the basis for a strong civil society, Indonesian society was too weak to contend with the "uncivil state" that dominated the country's political life. Hefner's study ends with Suharto's fall and the euphoria surrounding Abdurrahman Wahid's election as president in June 1999. But Wahid's shaky rule leaves open the question of whether democracy will be effectively institutionalized. Hefner makes a strong case that Islam in Indonesia is outstandingly civil, but the recent turmoil casts doubt as to whether it has the elements essential for democracy.

The Boxer Rebellion. BY DIANA PRESTON. New York: Walker & Company, 2000, 436 pp. $28.00.

Much of the recent scholarly attention on the Boxer Rebellion has looked at the motivations that fueled it. This novel account focuses on the experiences of the 4,000 people (including 3,000 Chinese Christians) from 18 nations who were besieged in Peking's legation (diplomatic) district during the summer of 1900. Preston recaptures the nightmarish horrors, heroic acts, and comic stupidities of those trapped by the armed Boxers and their backers in the imperial army. Using firsthand accounts by diplomats, business owners, and missionaries as well as government archives and official dispatches, Preston documents how a remarkable diplomatic coalition created an international force to confront the Boxers and force the Qing court to recognize its international obligations. An international relief force was hurriedly organized at Tientsin and the port of Taku, but the first attempt to march on Peking was beaten back before it reached the city. The final expedition, which succeeded, involved a British commander managing forces from the United Kingdom, America, Russia, and Japan—the last two repeatedly breaking ranks to try to get credit for being the first to enter the legation district.

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Africa

GAIL M. GERHART

Mercenaries: An African Security Dilemma. EDITED BY ABDEL-FATAU MUSAH AND J. 'KAYODE FAYEMI. Sterling: Pluto Press, 2000, 349 pp. $22.50 (paper).

This pioneering work seeks to publicize the alarming trend toward government hiring of private military companies (PMCs) in African countries. These companies step in when weak governments face challenges from rebel groups and can no longer count on armed intervention by former Cold War benefactors. PMCs began proliferating in Africa in the early 1990s and now operate in dozens of countries, where they organize weapons transfers, train palace guards, form business partnerships with shady politicians, police mineral-extraction sites, and often take payment for their services in mining concessions and oil contracts. Many are run by South Africans, Serbs, and Israelis with dubious human rights records who have successfully interpreted political instability as a market opportunity and positioned themselves adroitly in that market. As they expertly survey the legal, political, economic, and moral issues of "mercenarism," the authors argue that the best hope for arresting it lies in regional cooperation among African governments led by Nigeria and South Africa and organizations such as the Economic Community of West African States and the Southern African Development Community.

Oil in Nigeria: Conflict and Litigation between Oil Companies and Village Communities. BY JEDRZEJ GEORG FRYNAS. New Brunswick: Transaction, 2000, 274 pp. $39.95.

Nigeria's new civilian government has inherited serious and often violent conflicts between international oil companies, which provide 98 percent of the country's export earnings, and local communities in the Niger delta, where the environment has been damaged by the pollution and disruptions that accompany oil extraction. This meticulously researched book takes a sociolegal approach to these conflicts by examining 68 court cases pitting village communities against the companies. The author finds that the country's environmental and land laws, its court system, and its law enforcement methods are biased in the companies' favor. But he also discerns a gradual shift in the outcomes of litigation in favor of citizen plaintiffs in the 1990s. This trend reflects the changing social attitudes of judges, the increasing professional skills of lawyers who defend citizen interests, and the liberalization of the rules and procedures that make citizen suits more likely to succeed. An important study of the interplay among multinationals, local legal systems, and activists for human rights and the environment.

Upington: A Story of Trials and Reconciliation. BY ANDREA DURBACH. St. Leonards, Australia: Allen & Unwin, 2000, 282 pp. $16.95 (paper).

Black Lawyers, White Courts: The Soul of South African Law. BY KENNETH S. BROUN. Athens: Ohio University Press, 2000, 310 pp. $45.00 (paper, $19.95).

Much of South Africa's success in political

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transformation is due to its strong legal traditions and the courage of its small group of predominantly white human-rights lawyers. These two works illuminate the complexities of this recent legal history while revealing much about the personal dimensions of lawyering in a racially divided society. Durbach's perceptive memoir recounts her experiences as part of the defense team in a notorious public violence trial during the late 1980s—in which the trial judge, applying the principle of common purpose, convicted 25 Africans of a political murder and sentenced 14 of them to hang. To save them, the defense had to exploit every opening provided by the law, the facts, and the fast-changing political order. Broun, an American law professor, has interviewed several dozen black South African lawyers of varying ages. His book explores their personal and professional histories in depth, highlighting the enormous handicaps they overcame to win equality in a profession long dominated by whites. Both works provide useful and engaging introductions to the peculiarities of South Africa's legal system in the apartheid era.

Africa and the New World Order. BY JULIUS O. IHONVBERE. New York: Peter Lang, 2000, 240 pp. $28.95.

Another perspective on Africa's economic and political crises. This study reviews the debt problem, the failures of structural adjustment, the shortcomings of most African efforts at democratization, and problems of building successful regional cooperation. Much of the data is out of date and most of the analysis is familiar—yesterday's fresh radical ideas that have become today's clichés. But the newcomer to problems of African development may appreciate the author's indignation, as well as his clear (if somewhat repetitive) explanations of major issues. Solutions are prescribed only in general terms: more accountable governments, more aggressive and creative inputs from non-governmental organizations, and more concern for fair rules of the game by rich countries in a globalizing world.

Congo-Paris: Transnational Traders on the Margins of the Law. BY JANET MACGAFFEY AND RÉMY BAZENGUISSA-GANGA. Bloomington: Indiana University Press, 2000, 206 pp. $39.95 (paper, $19.95).

This study by two experienced anthropologists examines the world of informal commerce between Europe and Africa, particularly as carried out by traders from Kinshasa and Brazzaville through their personal networks centered in Paris. Faced with disorder and economic breakdown in their home countries, these enterprising men and women have found ways to evade the normal rules of travel and exchange and to exploit opportunities to supply niche markets in Europe's immigrant communities. By recording and analyzing life histories, the authors show how traders construct and organize their businesses, build on relationships of trust with family, friends, and members of their ethnic groups, and ultimately develop identities that provide meaning, status, and zest in their precarious lives. A fascinating look at the underside of globalization and what the authors call the counter-hegemonic perspective of *débrouillez-vous* (fend for yourself) among those excluded from the world of "legitimate" commerce.

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Letters to the Editor

World Bank and USAID chiefs rethink foreign aid; Margaret Catillaz and Theodore Ruthizer defend immigration; Edward Luck rejects "regio-cops"; and others

POINTING THE FINGER

To the Editor:

In his review of *Failed Crusade: America and the Tragedy of Post-Communist Russia* ("Blaming Russia First," November/December 2000), Daniel Treisman caricatures rather than confronts my arguments. For instance, nowhere in the book do I maintain that "the Soviet Union in late 1991 was a well-functioning, reforming state" or that Harvard economists "brainwashed not just the Russian leadership but much of the country's population." Perhaps Treisman exaggerates and then protests my criticism of Harvard's economic shock-therapists because one of them, Andrei Shleifer, is the co-author of his book *Without a Map: Political Tactics and Economic Reform in Russia.*

Treisman dismisses my larger political and historical interpretations as "clichés." But he specifically cites only one example, involving what Russians, not I, have for centuries called the "accursed," wrathful question: "Who is to blame?" In some places Treisman writes as though the 66-page third part of my book, which extensively sets out general and specific policy proposals for the United States, does not exist.

Perhaps alone among American commentators, I have long emphasized the Boris Yeltsin regime's profound fear, beginning in the mid-1990s, of one day being held responsible for the oligarchical looting and mass impoverishment of Russia. For evidence of this fear, Treisman needs only to read Yeltsin's recent memoir, *Midnight Diaries,* which confirms how Vladimir Putin, a career officer in the KGB (the former Soviet agency for intelligence and internal security), was made Kremlin leader in order to guarantee the soon-to-retire president and his family full immunity from prosecution.

STEPHEN F. COHEN

Professor of Russian Studies and History, New York University

MY PREROGATIVE

To the Editor:

Peter Spiro cites us as examples of his article's title villains, "The New Sovereigntists" (November/December 2000). He defines this awkward term (which is his, not ours) as those who believe "the United States can pick and choose the international conventions and laws that serve its purpose and reject those that do not."

But the idea that a nation can decide which international laws to embrace is not new and should not be controversial. In a world of diverse cultures, political systems, and power relationships, international

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law derives its legitimacy and efficacy from national consent. And the power to give consent naturally implies the power to withhold it.

Spiro describes our position as "anti-internationalist." It is not a rejection of international law, however, to examine whether treaties or customary international rules are consistent with U.S. interests and constitutional standards, or to consider how these international norms should best be implemented within the U.S. system. The United States has long supported the development of an international rule of law. It has also insisted, however, that its international commitments have the support of its people through elected representatives, and that these commitments respect basic constitutional principles such as the separation of powers, federalism, and individual liberties.

Spiro dismisses these domestic democratic and constitutional concerns. For him, more international law, regardless of its content, is always better and should always trump domestic standards. Thus, he claims that the "New Sovereigntism" is "retarding the advance of international law." As for the possibility that some of this "advancing" international law might actually contravene U.S. constitutional values, Spiro simply asserts that "the Constitution will have to adapt." Fortunately, our elected officials have been more sensitive to the domestic costs of international regimes than Spiro has.

Ironically, it is Spiro's unalloyed internationalism, not the New Sovereigntism, that is likely to foster U.S. rejection of international law. Washington often pulls back from international commitments and institutions when such obligations no longer respond to American needs and values. The more advocates such as Spiro justify international law as an end in itself without regard to national consent, the more likely it is that they will fuel the very anti-internationalism they decry.

CURTIS A. BRADLEY
Professor, University of Virginia Law School
JACK L. GOLDSMITH
Professor, University of Chicago Law School

BACK TO THE DRAWING BOARD

To the Editor:

Carol Lancaster has made a valuable contribution to the discussion about the future of U.S. foreign aid, but some of her points need rethinking ("Redesigning Foreign Aid," September/October 2000).

She is correct, for example, in stating that the U.S. aid program's overarching goal of "sustainable development" does not provide the same cohesion and broad support that anticommunism did during the Cold War. But "development"—increasing prosperity, freedom, and social progress—should not be discarded as a unifying theme, for it is the only way all of the program's goals can be achieved. Moreover, Lancaster's proposal to separate transnational issues from development and her suggestion that diplomacy is the main purpose behind Washington's transnational programs neglect the fact that transnational issues are not diplomacy's primary preserve.

Lancaster's suggestion to split the U.S. aid program into smaller units among several different organizations would create a far more confusing and uncoordinated program than the current one. And relying on the World Bank (in which the United States has only limited influence) to implement

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much of what is now done by the U.S. Agency for International Development (USAID) would not serve America's interests in the increasingly important developing world.

To deal with the complex challenges now facing the developing world, a number of institutions, including multilateral and bilateral organizations, are developing a more coherent strategic framework for international aid. USAID has adapted to this new framework and is now seen as a critical actor in not only the international aid community and aid-receiving countries but also the U.S. foreign policy apparatus. The worst thing the United States can do now is to make organizational changes without accounting for this new framework.

Lancaster's article is virtually silent on the effectiveness of the U.S. foreign assistance program. Because USAID is engaged in societies with considerable religious, ethnic, and cultural diversity, the challenge is to help unite these various groups, particularly where value systems conflict among the different segments of society. Creating institutions that reflect consensus within a society and thus lead to greater national cohesion has become an increasingly important objective for the international aid community and its partners in the developing world. USAID has played a key role in bringing this issue to the forefront in that community as well as within the U.S. government.

It has also achieved many specific successes. USAID immunization programs, for example, save more than three million lives a year. Forty-three of today's top 50 importers of American agricultural products were once U.S. foreign-aid recipients. In the 28 countries with the largest USAID-sponsored family-planning programs, the average number of children per family has dropped from 6.1 in the mid-1960s to 4.2 today. Of the 57 nations that successfully democratized during that same period, 36 (including Serbia) received governance assistance from USAID. Since 1987, USAID has initiated AIDS prevention programs in 32 countries and has become the recognized leader in designing and developing such programs.

I hope the Bush administration will seriously study the issues raised in Lancaster's provocative article, as well as the responses it has stimulated from those who support development aid as an essential component of U.S. foreign policy.

J. BRADY ANDERSON
Administrator, U.S. Agency for International Development

To the Editor:

Carol Lancaster rightly emphasizes the need to shore up peacekeeping efforts in an era of globalization and increasing civil conflict. But her assertions of "signs of mission creep" at the World Bank, particularly with regard to "a program to finance the transition from war to peace, which is better undertaken by aid agencies that specialize in post-conflict relief and recovery" are way off the mark.

The World Bank was founded at the end of World War II to advance national reconstruction and development worldwide. During the Cold War, reconstruction tended to get ignored as the bipolar world focused on development as an instrument of influence. The end of the Cold War

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has initiated a more open discussion of the overlapping political and economic faces of development. With nearly half of the countries in Africa either in or emerging from interstate or intrastate conflict, it would be grossly negligent on economic grounds (such as protecting assets and enabling investment) if not on moral grounds (such as reducing hunger, malnutrition, unemployment, and fear) if the World Bank did not focus more on reducing poverty and building peace. After all, the connection between the two is undeniable: 14 of the 20 poorest countries in the world are currently in or emerging from armed conflict.

Of course, the World Bank is neither naive nor bold enough to assume that it can or should battle poverty alone. The bank's president, James D. Wolfenson, has done much to build partnerships with United Nations agencies, governments, nongovernmental organizations, civil society, foundations, and the private sector. Since the creation of the bank's Post-Conflict Unit a short three years ago, it has participated with U.N., bilateral, and multilateral agencies in more than 14 demobilization and reintegration programs worldwide. It has launched governance and anticorruption programs in a growing number of war-torn countries, working with Transparency International and others to address the rule of law, especially transparency and accountability in government, financial, bureaucratic, and judicial systems. And it has formed working relationships with the U.N. High Commissioner for Refugees, the International Committee of the Red Cross, the U.N. Development Program, and a host of other donor partners to close the gaps between relief and development. Together these groups have worked to rebuild social and human capital, provide livelihoods, and revitalize basic services in war-ravaged countries ranging from Rwanda to Mozambique. At the same time, the World Bank is continuing to work with the International Monetary Fund toward financial and economic policy reform in these countries.

NAT J. COLLETTA
Head, Post-Conflict Unit, the World Bank

COMING TO AMERICA

To the Editor:

James Goldsborough wrongly asserts that "skilled immigrants are driving down wages for America's skilled labor force and diverting resources from the education of Americans" ("Out-of-Control Immigration," September/October 2000). The latest U.S. Department of Commerce survey of the digital economy finds that the average wage of skilled high-tech workers was 85 percent higher than the overall private-sector average. Since 1992, wages of high-tech workers have grown 5.8 percent, while private-sector wages have grown only 3.6 percent. Moreover, the law governing H-1B visas (temporary permits for skilled workers) requires employers to pay foreign professionals the same wages and benefits that they pay U.S. workers in similar positions. Two recently signed laws increased the cap on H-1B visas and required sponsoring employers to pay a $1,000 fee for each H-1B petition they file. This money goes toward job training; scholarships for low-income students pursuing degrees in mathematics, engi-

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neering, or computer science; and technical-skills programs for workers.

The current economic growth has been fueled largely by dramatic increases in productivity and efficiency. These increases, in turn, have stemmed from advances in high technology and the ways that U.S. businesses employ this technology. Federal Reserve Chairman Alan Greenspan has stated that he sees "no reason that productivity growth cannot remain elevated."

What is of concern is the current worker shortage and the coming retirement of the baby boomers. But there is a solution to this potential demographic crisis: immigration. As demographic economist Richard Judy put it in his testimony before the House of Representatives, "most of the demographic realities ... are immutable except, perhaps in the very long run. Even then, however, neither birth rates nor death rates are responsive to policy change. Among the fundamental drivers of demographic change, only immigration policy is amenable to manipulation by government policymakers."

Judy's comments have been echoed by Greenspan himself, who on more than one occasion has stated that one way to solve the worker shortage (and presumably the forthcoming disparity between workers and retirees) would be to "open up our immigration rolls significantly." He also has stated that this demographic crisis will continue "unless immigration is uncapped."

MARGARET A. CATILLAZ

President, American Immigration Lawyers Association

To the Editor:

James Goldsborough thinks U.S. immigration laws are too soft. But he neglects to mention the repressive 1996 legislation meant to provide the enforcement muscle for stopping illegal immigration. That legislation tore families apart by deporting long-time permanent residents for criminal offenses, many of which were minor and committed decades before they became deportable crimes. It ended judicial review of immigration decisions and discretionary relief based on years of good conduct or hardship to family members. And it implemented "summary exclusion," giving absolute and final authority to immigration inspectors to decide whom to admit and whom to turn away.

As for the 1965 Immigration Act, much reviled by Goldsborough, it neither doubled the annual number of immigrants nor had the "unintended consequences" of opening the "floodgates" to family immigration. Instead, the act ended the decades-old discriminatory policies that had favored immigrants from western Europe at the expense of those from southern and eastern Europe and to the almost total exclusion of Asian immigrants.

Goldsborough's warnings of an immigration crisis find little support in most serious studies conducted over the past five years. The National Academy of Sciences, for example, found that immigrants raise the total income of U.S.-born workers by at least $10 billion a year—and this estimate is considered conservative. A 1997 RAND study found that although new immigrants are a fiscal burden to California, they are a fiscal benefit to other states. A 1996 Hoover

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Institution study concluded that immigrants are an important source of economic growth and revitalization for inner cities. And a 1998 study conducted by the Cato Institute and the National Immigration Forum found that states with high immigrant populations have historically outperformed those with low immigrant populations in both job creation and income growth.

U.S. immigration law and its administration do need reform, but not in the direction sketched by Goldsborough. The United States needs to increase, not decrease, the numbers of legal immigrants, reconfigure immigration categories, and vastly improve the delivery of immigration services. It must do a better job of fairly and justly enforcing the law. And it must not let cultural dislikes and hoary notions of immigration dictate its policies.

THEODORE RUTHIZER
Lecturer in Law, Columbia Law School

GOING NUCLEAR-FREE

To the Editor:

Although Jonathan Schell's article eloquently describes the current nuclear weapons predicament, it does not justify its title, "The Folly of Arms Control" (September/October 2000). Schell's proposed remedy for the stagnation in the arms control process is a commitment made by the nuclear powers, led by the United States, to abolish nuclear weapons. But as a signatory to the nuclear Nonproliferation Treaty (NPT), the United States has already accepted this commitment. What would a reaffirmation of it accomplish without concrete steps in arms control?

A series of progressive restraints must be implemented to counteract the NPT's discriminatory designation of nuclear and non-nuclear states. Indeed, as Schell emphasizes, the U.S. retention of an "enduring stockpile" of some 10,000 nuclear weapons is fundamentally inconsistent with the nonproliferation regime. Moreover, Russia's recent proclamation of increased reliance on nuclear weapons contravenes the goal of nonproliferation. If the strongest nations still need large and "enduring" inventories of nuclear weapons, don't other nations need nuclear weapons even more?

In view of all this, the "folly" of arms control must be pursued to decrease the numbers of all nuclear weapons, not only strategic weapons. U.S. leadership is essential. Nuclear states must continue to improve the surety of command-and-control systems and remove the hair-trigger status of nuclear weapons. The disposal of nuclear-weapons materials must be drastically accelerated.

We must distinguish between the "abolition" of nuclear weapons and their "prohibition." In its strict sense, abolition appears impossible: nuclear weapons cannot be uninvented. But prohibition would be feasible if a broad international consensus could be built to attain it. Moreover, alternate routes toward prohibition must be considered. Should the nuclear weapons-free zones be augmented such that eventually they cover the entire globe? Should the NPT be amended to abolish the category of "nuclear" states? Should the nuclear states convene to generate a timetable under which they would meet their obligations to the NPT? Should prohibition of nuclear weapons be placed on the agenda of the Conference on Disarmament in Geneva? Should a

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broad-based conference be called to discuss the worldwide prohibition of nuclear weapons?

Each of these routes faces profound obstacles but also extends hope for progress. It is unfortunate that Schell's article only advocates reaffirming the commitment to nonproliferation but does not attempt to chart a road map for the prohibition of nuclear weapons.

WOLFGANG K.H. PANOFSKY
Professor and Director Emeritus, Stanford Linear Accelerator Center, Stanford University

GOOD COPS, BAD COPS?

To the Editor:

In trying to be hopeful and helpful, Michael Hirsh is far too bullish about regional peacekeeping and far too quick to dismiss the U.N. option ("Calling All Regio-Cops," November/December 2000).

His examples of "successful" U.N.-regional linkages are telling. The U.N. Security Council in fact had little to say during the Nigerian interventions in Liberia and Sierra Leone, and it was not about to authorize the NATO bombing in Kosovo and Serbia. Yes, Australia did get the council's backing for sending troops to East Timor, but Canberra would be reluctant to repeat that experience elsewhere in Indonesia or Southeast Asia. Nor did the Association of Southeast Asian Nations seek a larger security role in East Timor; ASEAN was AWOL during the crisis. The Middle East, South Asia, and Northeast Asia have no regional bodies to handle crises, and the Organization of African Unity and the Organization of American States (OAS) have spotty records in conflict resolution and almost no experience in peacekeeping.

Regional organizations lack the capacity for military intervention in part because they lack the will. The OAS has always profoundly opposed the use of force, and ASEAN has neither the mandate nor the desire to take up security issues. Even mighty NATO hopes that Bosnia and Kosovo are the end, not the beginning, of its peacekeeping phase.

Besides, most developing countries see humanitarian intervention as a threat to sovereignty and territorial integrity. Even Nigeria, the star "regio-cop," lost much of its appetite for foreign military ventures when it turned democratic.

Hirsh concedes that control over regional interventions could be a problem, but he never explains what it means for the Security Council to "legitimate" the use of force when it cannot limit or monitor its application. Without forces on the ground, the U.N. could do little to ensure the observance of global norms. Nor does he address the implications for U.S. security interests of the emergence of regional hegemons, blessed by the U.N., in the vacuum left by the retreat of American power. His example of Chinese troops planting the U.N. flag in Cambodia is more than a little disquieting.

True, peacekeeping "is doomed to remain amateurish, late, and woefully under-resourced" when the powerful do not care enough to send the very best. But this is just as true on the regional level as on the global level.

The core problem is how those powerful nations, chiefly the United States, define their national interests. This can change with the political seasons. During the senior George Bush's single presidential term, the U.N. launched a record dozen peacekeeping and nation-

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building missions. Then, with a Democrat in the White House, a Republican Congress, and a few setbacks, enthusiasm quickly ebbed inside the Beltway—although it has held up remarkably well in the rest of the country. Thus it is in the heartland, not in regional arrangements, that the solution lies.

EDWARD C. LUCK

Executive Director, Center for the Study of International Organization, New York University School of Law and the Woodrow Wilson School, Princeton University

POOR PENSION PLANS

To the Editor:

Few would doubt that the social security systems of Latin America and Russia need reform. But before getting swept up in José Piñera's enthusiasm for privatizing these systems along the lines of the Chilean model, one should note a possible unintended consequence of doing so ("A Chilean Model for Russia," September/October 2000).

According to a study by Chilean economist Alberto Arenas de Mesa and American sociologist Veronica Montecinos, the privately managed pension system in Chile has increased gender inequalities in that country since the program's inception in 1980. Because of the way the system calculates benefits, all the disadvantages that women, particularly poor women, suffer in the labor market directly affect the accumulation of funds in their individual retirement accounts. Thus the privatized system yields lower pensions for women than did the state-run program.

DOROTHY DILLON

Former Director for Latin America, U.S. Information Agency

MAKE THE BAD GUYS PAY

To the Editor:

Anne-Marie Slaughter and David Bosco confuse rather than clarify the proper role of Congress and the courts in the conduct of foreign policy ("Plaintiff's Diplomacy," September/October 2000).

First, the U.S. Constitution (Article I, Section 8, Clause 10) explicitly grants Congress the authority to define and punish violations of international law. Subsequent statutes and court decisions, such as the Alien Tort Statute of 1789, the 1964 *Banco Nacional de Cuba* case, and the 1996 Antiterrorism Act, have recognized Congress' right to use the courts to obtain such judgments.

The authors also wrongly portray the Clinton administration's role in the *Flatow* and *Brothers to the Rescue* cases. It's true that the White House did not directly espouse these claims. But President Clinton chose to sign the Antiterrorism Act in an elaborate ceremony on the White House lawn and then actively encouraged the victims of heinous acts committed by Iran and Cuba to pursue justice through the courts under the new law.

Finally, the authors' policy recommendation is counterproductive. The "plaintiff's diplomacy" proposal makes the innocent pay for the acts of the guilty. Establishing a compensation fund using U.S. tax revenues as seed money is unfair to taxpayers, unjust to the victims, and provides no disincentive for terrorists. And asking for voluntary payments from terrorist states seems naive and puts the debt burden on any future democratic government. In the *Letelier* case, for example, by the time payment was made, the terrorist-sponsoring government in

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Chile had fallen, and the burden of compensation had shifted to its democratically elected successor.

Instead, the United States should immediately impose liabilities on terrorism-sponsoring governments by freezing their assets in the United States. I agree with the authors that the executive branch should remain dominant in the conduct of foreign policy. But let us remember to make the bad guys pay. To argue that such a policy would make terrorists "defensive" is nothing short of appeasement.

GARY SHIFFMAN
Former Staff Member, U.S. Senate

NO HEDGING HERE

To the Editor:

Chris Hedges uses analogies designed more for insult than for analysis ("The New Palestinian Revolt," January/February 2001). He describes Yasir Arafat as the Arab world's Marshal Pétain. What does that make Ehud Barak and the Israelis? Hedges also compares the West Bank and Gaza to South African bantustans, thereby equating Zionism with apartheid. Hedges' parallel between the current Israeli-Palestinian fighting, with only a few hundred casualties, and the Algerian war of independence, which claimed the lives of around a million Muslim Algerians, is simply bizarre. Israel is not France struggling to maintain colonies.

ANDREW APOSTOLOU
St. Antony's College, Oxford

ERRATUM

In editing an article by Norman Ornstein and Thomas Donilon ("The Confirmation Clog," November/December 2000), we introduced an error. The published text reads, "The Constitution, by requiring a two-thirds Senate vote on executive appointments, reflects the idea that a simple majority is an inadequate check on the executive's power to appoint."

The Constitution subjects executive appointments to "the Advice and Consent of the Senate" (Article II, Section 2), which is interpreted as a simple majority approval.

Our apologies.

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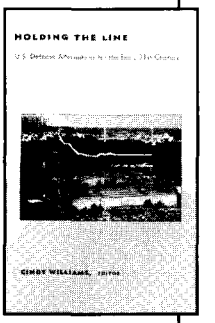

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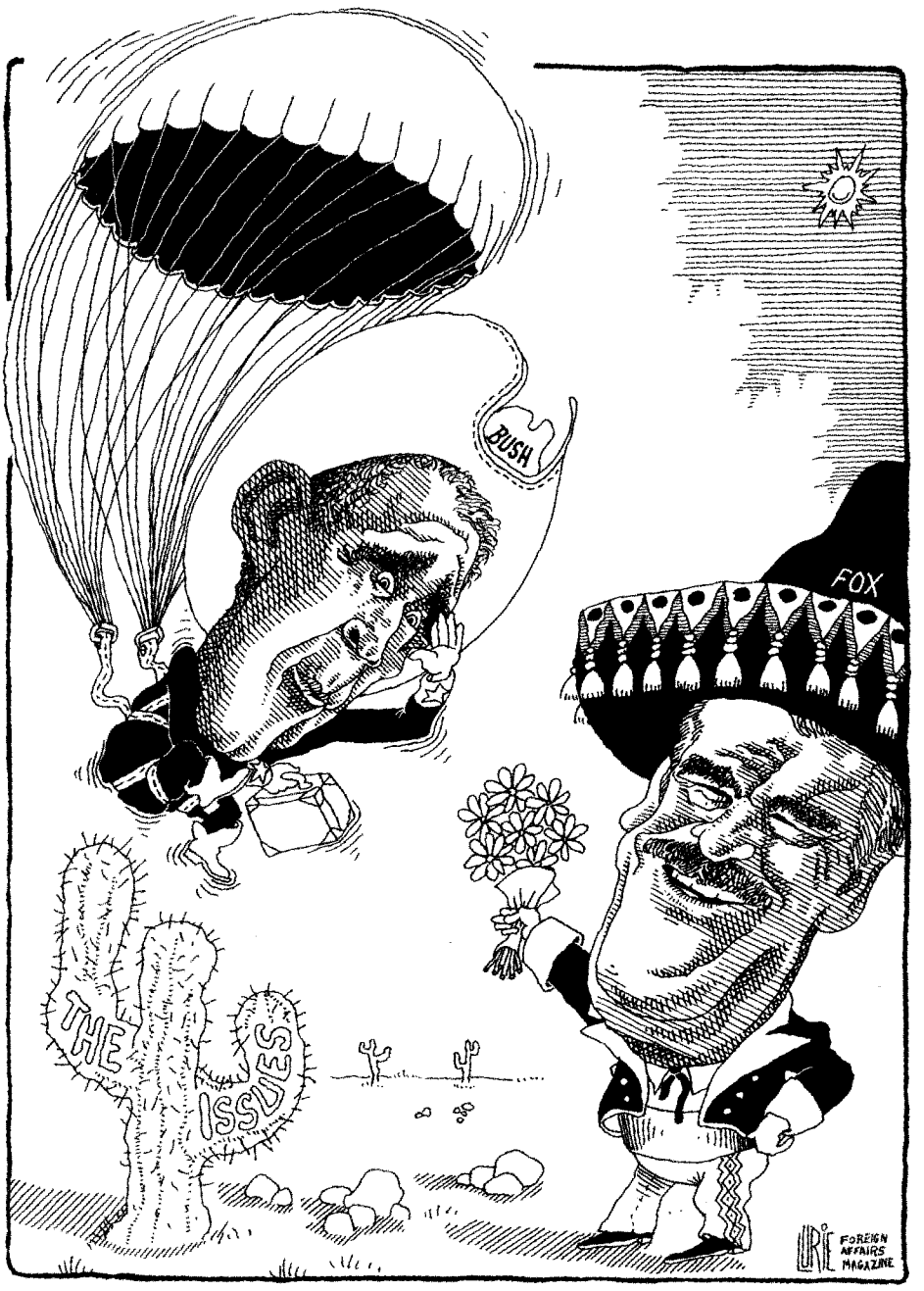

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